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# THE BANKING ACT OF 1933

The special session of Congress in the spring of 1933 enacted two banking measures, the Emergency Bank act and the Banking act of 1933. I. The chief provisions of the Emergency Bank act are authorization of national bank conservators, legalization of the issue of preferred stock by national banks, greater latitude in the issue of federal reserve bank notes, and granting more liberal loaning powers to federal reserve banks. II. The Banking act of 1933 is the result of several years of intensive study. Senator Glass had greatest influence upon legislation. Representative Steagall sponsored deposit insurance. III. Important features of the new law are: the separation of investment and commercial banking, restriction upon the use of bank credit for speculation, deposit insurance, authorization of state-wide branch banking, federal supervision of group banking, modification of double liability, regulation of interest on deposits, increased power to supervising officers. IV. Deposit insurance is the most controversial feature of the law. Rigid supervision is an essential concomitant. Federal insurance is stronger than state. Deposit insurance will increase federal reserve membership. Branch and group banking provisions are desirable. Double liability placed in an indefinite and unsatisfactory condition. Unified banking is partially achieved. The powers of the Federal Reserve Board are materially increased. V. The new law makes banking more of a social enterprise and increases the responsibility of the federal government for banking stability.

The special session of the seventy-third Congress was hurriedly convened to enact the administration's emergency banking bill—a measure that was introduced, passed and signed in a single day, March 9, 1933.[1] One of the last official acts of this same Congress was to pass the Glass-Steagall banking bill, officially designed the *Banking act of 1933;* this received the President's signature on June 16.[2] An amendment to the Emergency Bank act, which was approved March 24, authorizing the federal reserve banks to make direct loans to non-member banks and trust companies during the existing emergency, can properly be included in the first law.[3]

## *The Emergency Bank Act*

The Emergency Bank act was drawn up under pressure and passed promptly in order to facilitate the reopening of the nation's banks closed by state moratoria and the presidential proclamation of March 6. It contains five distinct titles. Title I deals principally with the hoarding or

[1] The President's message to Congress and the text of the Act are available in the *Federal Reserve Bulletin,* March, 1933, pp. 114-118.

[2] For the text of the Act, see *Federal Reserve Bulletin,* June, 1933, pp. 385-401.

[3] *Federal Reserve Bulletin,* April, 1933, p. 247.

exporting of gold. It includes a section giving the President blanket power over the operations of member banks of the federal reserve system during the emergency period, a power which was used in drawing up regulations for the reopening of banks.

Title II is cited as the "Bank Conservation act" and provides for the operation of national banks, under a conservator appointed by the Comptroller of the Currency. This was to make provision for banks which did not fully meet the standards of soundness required for opening without restrictions. Existing deposits were "frozen" in part or in whole. Conservators were permitted to receive new deposits as trust funds segregated from the deposits on hand when the bank was placed under the conservator. The future of banks placed under a conservator will depend largely upon their condition. The Comptroller may, at his discretion, terminate the conservatorship and permit the reopening of the bank without restrictions. If the bank's condition is less favorable it may be reorganized and reopened, the reorganization plan being subject to approval by the bank's creditors and the Comptroller. On the other hand, conservators have full powers granted to a receiver and may proceed to liquidate the bank.

In Title III authority is conferred upon national banks to issue preferred stock. This is a new departure in the capitalization of banks and has made possible the rehabilitation of the capital structure of associations whose assets had shrunk to such a degree that their capital was impaired; it has also aided in the formation of new banks where needed, *e.g.*, Detroit. Dividends upon preferred stock are cumulative and at a rate not exceeding six per cent per annum. Preferred stock may be purchased by the Reconstruction Finance Corporation; and, in fact, the Corporation early approved advances of this character ranging from $12,500 to a bank at Trinity, Texas, to $12,500,000 to the National Bank of Detroit.

Title IV liberalized the powers of the federal reserve banks in the issue of federal reserve bank notes. All direct obligations of the United States were made eligible as collateral for federal reserve *bank* notes during the emergency, whereas previously the only eligible government bonds were pre-war bonds bearing the circulation privilege. In addition, all notes, drafts, bills of exchange or bankers' acceptances acquired under the provisions of the Federal Reserve act as amended were made eligible temporarily as collateral for federal reserve bank notes. Notes may be issued up to 100 per cent of the face value of United States government obligations, but only 90 per cent of the estimated value of other collateral. Federal reserve bank notes had been virtually obsolete for a decade. A limited number have been listed upon the Treasury's circulation statement as outstanding, but the federal reserve banks long ago covered them dollar

for dollar in the Treasury and removed the liability from their own balance sheets. Under the controlled inflation bill of May 12, 1933, the federal reserve banks were authorized to purchase, either in the open market or direct from the Treasury, United States government bonds to the extent of $3,000,000,000. Bonds so purchased may be used under Title IV of the Emergency Banking act as collateral for the issue of federal reserve bank notes. The liability of the federal reserve banks for this class of notes, which on March 1 was zero, had increased to $138,744,000 by June 30.

Broader loaning powers were also conferred upon federal reserve banks. Section 402 of Title IV was a redrafting and liberalization of the second section of the amendment of February 27, 1932, commonly known as the Glass-Steagall act. As it now stands, Section 10 (b) of the Federal Reserve act permits direct loans to member banks under "exceptional and exigent circumstances" whenever the loan is "secured to the satisfaction of such federal reserve bank." Previously each case approved under Section 10 (b) called for affirmative action by not less than five members of the Federal Reserve Board. The provision for a penalty rate of one per cent above the established rate is retained, but the prohibition against use of any foreign bonds as collateral was dropped. This section expires by limitation on March 3, 1934, unless extended by the President, which extension cannot exceed one year.

Direct loans of federal reserve banks to individuals, firms, and corporations had been first authorized July 21, 1932, but only on condition that evidence be produced to show that the borrower is unable to obtain adequate credit accommodations from other banking institutions. The limitations were so severe that only 23 such loans, aggregating $859,000, were made during the remaining months of 1932.[4] The right of reserve banks to make loans to individuals was broadened by Title IV to include loans secured by United States government bonds under any regulation prescribed by the Federal Reserve Board.

The final portion of the law, Title V, contains two brief sections. The first appropriated $2,000,000 for carrying out the act, and the second was a validating section.

## *Framing the Banking Act of 1933*

The first definite steps in the banking reform movement, which culminated in the Banking act of 1933, were taken by Congress early in 1930. Even prior to that time, however, bankers and banking officials were urging a change in the national law, especially in the direction of extending the branch banking powers of national banks and providing for federal supervision of group banking.

[4] *Annual Report of the Federal Reserve Board,* 1932, p. 20.

The McFadden act of 1927 did not prove the expected "solution" of the branch banking question. At the American Bankers Association Convention of 1929, held in San Francisco, thirteen important papers were presented on unit, branch and group banking. Comptroller of the Currency J. W. Pole strongly recommended regional or trade area branches for national banks.[5] At the outset branch and group banking was the leading issue in the proposed national legislation. Early in 1930 the House of Representatives passed a resolution directing its Committee on Banking and Currency to investigate branch and group banking with a view to obtaining information as a basis of legislation.[6] The committee devoted several weeks (February to June, 1930) to public hearings, the results of which were published in two bulky volumes.[7]

The Senate likewise directed its banking and currency committee to conduct an investigation of banking conditions.[8] The scope of its investigation was broader than that of the House and, under the able leadership of Senator Carter Glass, veteran legislator and one of the authors of the Federal Reserve act, it held extended hearings in the winter of 1931 and again in 1932. Although a member of the minority party in the Senate until March 4, 1933, Senator Glass was able, by his wide knowledge of banking legislation and long experience, to dominate the Senate committee. Consequently, the pending measure was known throughout its legislative career as the Glass bill.[9]

Representative McFadden, Chairman of the House Committee on Banking and Currency of the 71st Congress, was succeeded in the following session by Representative Steagall of Alabama. The principal contribution made by Mr. Steagall was the deposit guaranty section. This was the distinctive feature of the Steagall bill (H. R. 11362) passed by the House in May, 1932. It was also embodied in the later Steagall bill passed by the House May 23, 1933.

In the formulation of banking legislation numerous organizations and individuals outside of the halls of Congress played an important rôle. The Banking and Currency Committee of the Chamber of Commerce of the United States made an exhaustive study of the federal reserve system.

[5] The addresses were printed in the *American Bankers Association Journal*, October, 1929, and reprinted as a separate pamphlet to meet an overwhelming demand. Comptroller Pole's address was entitled, "National Banks Need Branches."

[6] House Resolution No. 141, 71st Congress, 2nd Session, passed February 10, 1930.

[7] *Branch, Chain and Group Banking,* Hearings under House Resolution No. 141.

[8] Senate Resolution No. 71—71st Congress, 2nd Session, April, 1930.

[9] As a matter of fact, there were at least six distinct Glass bills. These were Senate 4723—71st Congress, 2nd Session, introduced June 17, 1930, and S. 3215, S. 4115, S. 4412 all introduced in the 72nd Congress, 1st Session, in January, March, and April, 1932, respectively. In the 1st Session of the 73rd Congress the measure was introduced March 9 as S. 245, was revised and reintroduced May 1 as S. 1631. This was the Glass bill which, with certain changes, became the Banking act of 1933.

The Committee's report was published in 1929 and was followed by a referendum to the members in February, 1930. The National Industrial Conference Board studied the banking problem and published two books upon the banking situation.[10] The Economic Policy Commission of the American Bankers Association, under the chairmanship of R. S. Hecht, made a number of significant reports, notably a pioneer study upon group and chain banking.[11] Comptroller J. W. Pole actively advocated an extension of branch banking for national banks, among other changes. The officials of the federal reserve system created a Committee on Member Bank Reserves and one on Branch, Group, and Chain Banking. The former published its report and recommendations in the autumn of 1931. The latter completed its study early in 1933 and submitted the findings to the Senate Committee on Banking and Currency. Unfortunately this report has not been published. At the request of the Senate committee, the Federal Reserve Board, through its governor, Eugene Meyer, made a critical analysis of the Glass Bill (S. 4115) in March, 1932, and recommended a large number of specific changes.[12] The American Economic Association gave banking a large place in the programs of the Association.[13]

From January, 1932, until the final passage of the law in June, 1933, the Glass bill was a leading measure before Congress. It was subjected to criticism by bankers, economists, the Federal Reserve Board. In February, 1933, it passed the Senate. The 72nd Congress adjourned and still the bill was not law. It was reintroduced on the opening day of the special session, but was sidetracked for the emergency legislation. On May 1 a new and revised bill (S. 1631), in which the Federal Deposit Insurance Corporation was substituted for the Liquidation Corporation, which had been a prominent feature of the former Glass bills, was again introduced by Senator Glass. This was the Glass bill which passed the Senate May 25. Meantime the House had passed the Steagall bill. The two bills were sent to conference, and it seemed likely for a time that the measure would be pigeonholed due to the opposition of the President to certain features, especially deposit insurance. The bills were brought forward when Congress refused to adjourn according to the administration's schedule, passed almost without opposition on June 13 and, three days later, received the President's signature.

Features in the earlier bills, which were not included in the final measure, were modification of the reserve requirements of member banks, segre-

[10] *The Banking Situation in the United States*, 1932; *Availability of Bank Credit*, 1932.

[11] *A Study of Group and Chain Banking*, pp. 1-60, New York, 1929.

[12] *Federal Reserve Bulletin*, April, 1932, pp. 206-222.

[13] See, *e.g.*, *The American Economic Review, Supplement*, March, 1930, pp. 91-113; March, 1932, pp. 185-246; March, 1933, pp. 108-136.

gation of savings assets and the removal of the Secretary of the Treasury from the Federal Reserve Board. The proposed change in the reserve requirements was dropped because the Glass proposal would have increased reserves and proved deflationary. Moreover, the Federal Reserve Board favored its own proposal of a reserve based partly upon turnover of deposits. Deposit insurance takes care of savings accounts. The Secretary was retained on the Board rather than affront the incumbent and incur the displeasure of the administration.

### *Provisions of the Banking Act of 1933*

The important features of this Act may be summarized under the following headings:

*The separation of investment and commercial banking.* Measures making for a thoroughgoing separation of investment banking from the activities of member banks are contained in the law. Security affiliates must be cut off within a year from June 16, 1933. The bond departments of member banks will also be restricted within one year from date of the act to the purchase and sale, without recourse, of investment securities upon the order and for the account of customers. Underwriting of investment securities by member banks is prohibited.[14] Interlocking of directorates between member banks and securities companies is likewise forbidden.[15] Receipt of deposits by firms engaged in security selling is unlawful, except under federal regulation, after a period of one year from the enactment of the law (June 16, 1933).[16]

*Restrictions upon the use of bank credit for speculation.* Each federal reserve bank is specifically directed to keep itself informed as to the character of the loans and investments of its member banks "with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities. . . ." In making advances to member banks this information is to be given weight. The Federal Reserve Board is given power to suspend a member bank from the use of the federal reserve system's credit facilities if, in the judgment of the Board after reasonable notice and hearing, the bank is making undue use of its credit for speculative purposes.[17] The Board may limit for each district the percentage of an individual bank's capital and surplus which may be represented by loans secured by stock or bond collateral. The Board may also direct any member bank to refrain from further increases of its loans for the speculative carrying of securities under penalty of suspension of rediscount privileges.[18] Direct loans to

[14] Sections 5, 16, 20.
[15] Section 32.
[16] Section 21.
[17] Section 3.
[18] Section 7.

member banks may now be made for ninety days (the former maximum was fifteen days) when secured by paper eligible for rediscount. If any member bank to which a direct loan has been made by its federal reserve bank shall, during the life of such loans "and despite an official warning of the reserve bank of the district or of the Federal Reserve Board to the contrary" increase its outstanding loans secured by collateral in the form of stocks or bonds, the advance made by the federal reserve bank shall be deemed immediately due and payable.[19] Member banks are prohibited from acting as agents in making brokers' loans for non-banking organizations.[20]

*Limitations upon private banking.* Private bankers must, after the expiration of one year, surrender either their deposit business or their dealing in investment securities. If they elect to conduct a deposit business they must submit to periodic examination by the Comptroller of the Currency.[21]

*Deposit insurance.* Provision is made for temporary insurance of deposits and also for permanent insurance. The law provides for a Federal Deposit Insurance Corporation which will liquidate the assets of failed member banks and insure (partially) the deposits of the banks which are members of the Corporation.

(1) *Temporary insurance plan.* The temporary insurance plan shall become operative on January 1, 1934, unless the President shall, by proclamation, fix an earlier date. All member banks of the federal reserve system are required to participate in the temporary insurance plan. Nonmember state banks may join upon certification by the state banking authorities that they are solvent and upon approval by the Corporation after examination. Deposits are insured up to $2,500 for any depositor. The funds to provide the temporary insurance come from assessments upon the participating banks of one-half of one per cent of their insured deposits, one-half of which is paid in cash and the remainder subject to call. One additional assessment may be levied if needed; any balance in the fund July 1, 1934, will be refunded to the member banks.

(2) *Permanent plan for insurance.* The permanent insurance plan becomes effective not later than July 1, 1934. There is created a Federal Deposit Insurance Corporation, under the management of a board of three directors, consisting of the Comptroller of Currency and two members appointed by the President. The capital of the Corporation is derived from three sources:

(a) An appropriation of $150,000,000 from the United States Treasury.

[19] Section 9.
[20] Section 11.
[21] Section 21.

(b) One-half of the surplus of the Federal Reserve Banks as of January 1, 1933. This will amount to approximately $139,000,000.
(c) Participating banks are required to subscribe one-half of one per cent of their deposits. If all banks including mutual savings banks join, this will be approximately $200,000,000.

All national and state member banks of the federal reserve system are required to participate in the insurance fund. From July 1, 1934, to July 1, 1936, non-member banks are entitled to the benefits of the system by subscribing to the stock of the insurance corporation and meeting the standards imposed. In the two-year interim non-member banks must take the necessary steps to qualify for membership in the federal reserve system. Under the permanent insurance plan, deposits in banks, which are members of the Corporation, will all be 100 per cent insured up to $10,000. This includes the first $10,000 in any large deposit. Deposits above $10,000 will have only partial insurance protection. This will amount to 75 per cent upon the portion of the deposit account between $10,000 and $50,000 and 50 per cent upon all above $50,000.

In addition to the initial capital stock contribution, member banks may be called upon to pay assessments equal to one-fourth of one per cent of deposits in order to pay claims upon insured deposits. No limit is placed upon the number of such assessments which may be levied. The Insurance Corporation can issue and have outstanding notes, bonds, or debentures equal to three times the amount of its capital stock. Money of the Corporation not otherwise employed is to be invested in United States government securities or temporarily deposited in federal reserve banks or with the Treasurer of the United States.

When and how do the insured depositors get their money? When a bank fails, the Corporation immediately organizes a new national bank to assume the deposit liabilities of the closed bank. The Corporation shall make available to the new bank a sum equal to the insured deposits of the closed bank. Deposits may be withdrawn as soon as this process is completed. The new bank is formed without capital stock, but the Corporation may sell stock in the new bank with a view to continuing its operation or may merge it with an existing bank. If this is not done, it will be liquidated within two years.[22]

*Minimum capital for new national banks.* The minimum capital of national banks, which shall be incorporated in the future, is $50,000 in cities with a population of 6,000 or less; $100,000 in cities from 6,000 to 50,000; and $200,000 in the larger cities. Existing national banks are not affected by the change. State banks now organized may join the federal reserve system with a minimum capital of $25,000 if located in a town of not more than 3,000 population. An existing state bank located in a small town and having capital of less than $25,000 may qualify for

[22] Section 8.

membership by increasing its capital to $25,000. This capital increase must take place while it is entitled to the insurance benefits of the Act, *i.e.*, before July 1, 1936. Any state bank organized in the future must meet the minimum capital of a national bank to qualify for federal reserve membership. This means from $50,000 to $200,000 according to the size of the city where it is located.[23]

*Mutual savings banks and Morris Plan banks may become members of the federal reserve system.* Admission of mutual savings banks to membership in the federal reserve system is authorized. A mutual savings bank must subscribe to the capital stock of the federal reserve bank in an amount equal to six-tenths of one per cent of its total deposit liabilities. Mutual savings banks admitted to membership will be subject to all provisions of law applicable to member state banks, including the requirement to maintain a reserve of three per cent of their savings deposit in the federal reserve bank. Mutual savings banks which join the federal reserve system may participate in the deposit insurance plan.

Membership in the federal reserve system is broadened to include also "Morris Plan" banks and "other incorporated banking institutions engaged in similar business."[24]

*Branch banking.* State-wide branch banking is authorized for national banks and state member banks having a capital of not less than $500,000 which are located in states which affirmatively grant to state banks the right to establish branches. Lower capitalization is authorized in states having less than 1,000,000 population and no large cities. The branch banking sections are applicable at once in the states which permit state-wide branches. State-wide branches of member banks will be automatically legalized in any other state which subsequently sanctions state-wide branches of its state banks.[25]

*Group banking.* Bank holding companies are required to obtain a permit from the Federal Reserve Board before they are allowed to vote the stock of a national or state member bank under their control. In order to obtain such a permit the holding company must agree to submit to examinations, at its own expense, and to publish such statements of condition as may be required; to make provision for the additional ("double") liability upon the controlled bank stock; and to divest itself of ownership or control of a security company, if now included in the organization, within five years. Provision may be made for double liability either by building up and maintaining a backlog of readily marketable assets amounting to 25 per cent of the aggregate par value of the bank's stocks or, at the option of the holding company, a reserve of 12 per cent, plus a requirement that the shareholders of the holding company shall be in-

[23] Section 17.
[24] Section 5.
[25] Sections 5 (b) and 23.

dividually and proportionately liable under the double liability provisions on the bank stock. A liberal time allowance is granted for building up the required reserves.[26] A group bank system may cast only one vote in election of federal reserve bank directors.[27]

*Double liability.* The additional liability imposed upon shareholders in national banks shall not apply with respect to shares in any national banking association issued after the date of enactment of the Act (June 16, 1933).[28]

*Elimination of interest on demand deposits.* Member banks may not pay any interest on any deposit which is payable on demand. This includes the balances carried by banks in the money centers. This law does not affect the interest paid upon deposits of mutual savings banks carried with correspondent banks or deposits in offices located in a foreign country. Exception is also made for deposits of public funds with respect to which payment of interest is required by state law.[29]

*Interest on time deposits of member banks.* The Federal Reserve Board is given authority to regulate the rate of interest which may be paid by member banks on time or savings deposits. Different rates may be allowed. Member banks shall not pay any time deposit before its maturity and may only waive the requirement of notice upon savings deposits by granting the same waiver to all savings deposits.[30]

*Postal savings.* The law states that postal saving deposits may be withdrawn "only on notice given sixty days in advance and under such regulations as the Postmaster General may prescribe; but withdrawal of any part of such funds may be made upon demand, but no interest shall be paid on any funds so withdrawn except interest accrued to the date of enactment of the Banking act of 1933." The Regulations of the Postmaster General, dated July 25, 1933, stipulate that no change is made necessary in the method of handling withdrawals by this amendment. Interest will be credited as hitherto to regular interest dates, and interest will be forfeited only from the quarterly interest payment date to date of withdrawal.

Postal savings depositaries may make time deposits in member banks and receive interest thereon. The security for deposits of postal savings funds in banks participating in the deposit insurance plan may be waived in so far as the deposits are insured.[31]

*Regulation of loans.*

(a) Loans by member banks to their own executive officers are pro-

[26] Sections 5 (c) and 19.
[27] Section 3 (b).
[28] Section 22.
[29] Section 11 (b).
[30] Section 11 (b).
[31] Section 11 (c) and (d).

hibited. If an officer borrows from any other bank he must make a report of the loan to the chairman of his own board of directors.[32]

(b) Member banks are rigidly limited in making loans to or investment in stock of affiliates.[33]

(c) In determining the loan limit of a corporation, borrowing from a national bank, all obligations of its owned or controlled subsidiaries must, in the future, be included.[34]

*Removal of bank officers or directors.* The Comptroller of the Currency in the case of national banks and the Federal Reserve Agent in the case of state member banks are empowered to institute proceedings before the Federal Reserve Board to remove any officer or director who has, in the opinion of the Comptroller or the Agent respectively, continued to violate the banking laws, or continued to engaged in unsafe and unsound banking practices after having been warned to discontinue the same. The Federal Reserve Board may order such officer or director to be removed if the findings support the charges made. The findings of the Board are not to be made public.[35]

*Re-opening of banks.* The law permits the re-opening of closed national banks if depositors and general creditors, representing at least 75 per cent of the total deposits and unsecured credit liabilities, consent in writing to the retention by the bank of all or any part of its deposits for such reasonable period as the Comptroller may specify.[36]

*Additional amendments of the Federal Reserve act.* In addition to the numerous amendments to the Federal Reserve act noted above, pertaining largely to member banks and member bank relations, there are a number of changes in the law affecting the powers and tenure of the Board and the operations of the federal reserve banks. The Act is amended to:

(a) Eliminate the franchise tax which federal reserve banks are now required to pay into the United States Treasury; all net earnings above the six per cent dividend will be paid into the surplus fund.[37]

(b) Increase the term of the appointive members of the Federal Reserve Board from ten to twelve years.[38]

(c) Create by law an open-market committee which shall handle all purchases and sales in the open market for all federal reserve banks.[39] This, in substance, writes into the law what is already the practice.

(d) Give to the Federal Reserve Board special supervision over all nego-

[32] Section 12.
[33] Section 13.
[34] Section 26.
[35] Section 30.
[36] Section 29.
[37] Section 4.
[38] Section 6.
[39] Section 8.

tiations, within the federal reserve system, with foreign banks or bankers. Heretofore, the Federal Reserve Bank of New York has handled a large proportion of the foreign negotiations.

(e) Make the governor chairman of the Board in the absence of the Secretary of the Treasury.

(f) Omit the provision of the existing law that the Secretary of the Treasury may assign offices in the Treasury Department for the use of the Board and substitute, in lieu thereof, a statement simply that the principal offices of the Board shall be in the District of Columbia.

(g) Clarify the Board's powers over salaries and terms of employment of its own employees and over the funds derived from assessments upon federal reserve banks for the purpose of defraying its own expenses.

*Miscellaneous features of the law.* Certain features of the law can only be enumerated. These include:

(a) A limitation upon the amount which a member bank may invest directly or through a building company in the bank premises to not more than the capital stock of the bank.[40]

(b) An amendment which permits state-wide consolidation of banks. This should prove especially significant in connection with the formation of state-wide banking systems.[41]

(c) A provision whereby the trust business of separate institutions is automatically transferred, in the event of consolidation, to the new bank.[42]

(d) Limitation of the maximum interest or discount rate that may be charged on loans by a national bank to an amount not exceeding the rate allowed by the law of the state, or a rate one per cent higher than the federal reserve discount rate on ninety day commercial paper, whichever is higher. Where no rate is fixed by state law, the rate shall be seven per cent or one per cent in excess of the federal reserve rate, whichever is the greater.[43]

(e) A restriction upon the maximum number of directors of a national bank to 25, upon the assumption that too large a board is unwieldy. The minimum par value for qualifying directors' shares is raised to $2,500 in cases where the capital stock is in excess of $50,000; $1,500 in banks with capital of more than $25,000 but not in excess of $50,000; $1,000 in banks of $25,000 capital or less.[44]

(f) A new departure in election of bank directors, which calls for cumulative voting by shareholders. The shareholder may vote the number of shares owned by him in the usual manner or he may cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares.[45]

(g) A section gives the district courts of the United States original jurisdiction in suits involving international or foreign banking and restores to them original jurisdiction in all suits to which the federal reserve banks are a party.[46]

[40] Section 14.
[41] Section 24 (a).
[42] Section 24 (b).
[43] Section 25.
[44] Section 31.
[45] Section 19.
[46] Section 15.

(h) A broadening of the powers of the Comptroller with respect to the employment and compensation of examiners and other employees.[47]

(i) An amendment to the Clayton Anti-Trust act which provides that no officer or director of a bank under United States law may be an officer, director, or employee of a corporation (other than a mutual savings bank) or member of a partnership making loans secured by stocks or bonds except to its own subsidiaries.[48]

(j) An extension of the time limit on direct collateral loans by federal reserve banks to their own member banks from 15 days to 90 days when secured by eligible commercial paper.[49]

### *Interpretation of Important Features of the Law*

It is possible in the space available to discuss further only a few of the more important provisions of the law. Of these deposit insurance undoubtedly takes first rank. The inclusion of deposit insurance in the banking act was largely due to the efforts of Representative Steagall. The bills presented by Senator Glass, with the exception of the final one (S. 1631) introduced in May, 1933, provided for a Federal Liquidating Corporation but not for deposit insurance. The Steagall bill,[50] on the other hand, carried a provision for deposit guaranty when it passed the House in May, 1932. Deposit insurance was opposed by Senator Glass. Owing to the opposition of the conservative leaders in the Senate it made no further progress until the special session following immediately upon the heels of the banking crisis. Even then it encountered opposition from the conservative Democrats in Congress, from President Roosevelt, and from banker organizations. Senator Glass finally bowed to the inevitable and reluctantly incorporated deposit insurance in his bill. He insisted, however, that, after a two-year transition period, only members of the federal reserve system be allowed to participate in the benefits of the fund. This he believed would greatly increase membership in the federal reserve system and bring a step nearer the desired goal of a unified banking system under federal control. President Roosevelt consented to the inclusion of deposit insurance on condition that it should not become operative during 1933.

Experience with deposit insurance condemns it. State systems have proved a dismal failure. Of the eight states that have tried it since 1907, Oklahoma, Texas, Kansas and Washington have repealed their guaranty laws; in Mississippi, North Dakota and South Dakota the laws are inoperative; the Nebraska law was declared unconstitutional in 1932.

[47] Section 28.
[48] Section 33.
[49] Section 9.
[50] House Resolution 11362—72nd Congress, 1st Session.

In all cases the insurance fund was hopelessly insolvent when the system ceased to function.[51]

Any form of deposit insurance is objectionable to bankers in that it puts the burden of the cost upon the sound and solvent banks. The new federal law is no exception. Losses are to be paid from assessments upon the participating banks of one-quarter of one per cent of deposits as often as needed—an unlimited liability. The cost will depend upon the number of bank failures and the loss incurred. Any estimate of what this will amount to is a wild guess. Estimates which assume the loss ratio of pre-war days are meaningless. Figures based upon losses in the past ten years indicate an intolerable burden but are equally unreliable as a basis for future predictions. The Corporation will be compensated for its services as receiver for closed banks and may earn interest on advances to insolvent banks or investments in government bonds. This will offset, in some measure, the losses but will not cover the cost unless the millenium arrives in banking. In the long run, if the federal insurance plan works, the cost will be passed along to the beneficiary—the insured depositor—which is entirely proper.

Banker criticism has been directed against certain features of the present law. The first of these is that New York member banks must foot more than one-fourth of the bill on the basis of present deposits; losses have been most severe in the Middle West and other sections. This, eastern bankers hold, brands the law as sectional legislation. It is pointed out, in the second place, that the plan of partial insurance discriminates in favor of the small depositor.[52] A depositor with $100,000 in a closed bank is paid $65,000 or 65 per cent of the deposit. Statistics show (see Table I) that the accounts of $50,000 and up average $224,000; under the law this gives them insurance up to approximately 57 per cent. This is about the average percentage of dividends paid by closed banks. Consequently, these depositors receive no benefit except that they are paid immediately instead of being compelled to wait until liquidation is completed. This, however, is no inconsiderable advantage.

Statistics showing deposits by size of accounts in licensed member banks on May 13, 1933, have recently been published in the *Federal Reserve Bulletin*.[53] These data are summarized in the table on page 599.

It will be noted that 96.5 per cent of the number of accounts will be fully covered by the temporary insurance plan, and over 99 per cent fall

[51] John G. Blocker, *"The Guaranty of State Bank Deposits,"* Kansas Studies in Business, No. 11.

*The Guaranty of Bank Deposits,* pamphlet issued by the Economic Policy Commission of the American Bankers Association, May 15, 1933.

[52] "Guaranty Provisions of Federal Banking Act of 1933," prepared by the Legal Department of the American Bankers Association, June 26, 1933.

[53] *Federal Reserve Bulletin,* July, 1933, p. 414 and pp. 454-456.

TABLE I

LICENSED MEMBER BANKS AND NUMBER OF DEPOSIT ACCOUNTS, BY SIZE OF ACCOUNT, MAY 13, 1933

| Size group | Number of accounts | Amount of deposits | Percentage distribution | | Average size of accounts |
|---|---|---|---|---|---|
| | | | Number of accounts | Total deposits | |
| Deposit accounts of | | | | | |
| $2,500 or less | 29,482,384 | $5,580,327,000 | 96.5 | 23.7 | $189 |
| $2,501 to $5,000 | 569,833 | 1,912,132,000 | 1.9 | 8.1 | 3,356 |
| $5,001 to $10,000 | 269,903 | 1,840,791,000 | .9 | 7.8 | 6,820 |
| $10,001 to $50,000 | 187,115 | 3,720,403,000 | .6 | 15.8 | 19,883 |
| Over $50,000 | 46,870 | 10,488,654,000 | .1 | 44.6 | 223,782 |
| Total (5,500 banks) | 30,556,105 | $23,542,307,000 | 100.0 | 100.0 | $770 |

within the $10,000 limit of full insurance under the permanent plan. Accounts in the bracket over $50,000, while only 1/10 of one per cent of the total, represented 45 per cent of the total deposits. Even higher concentration of number of accounts in the lower brackets would result from the inclusion of mutual savings banks and non-member state banks.

Participating banks are required to subscribe for stock in the Insurance Corporation on the basis of total (not "insured") deposits. This adds, in the banker's view, a further element of inequality. There is also the possibility that large accounts will be broken up and distributed to a number of different banks in order to attain a maximum of protection. These are the reasons why the larger banks especially protest against partial insurance.

Partial insurance, rather than complete coverage, was provided in order to reduce the load which the fund must bear. Granting full protection to small depositors undoubtedly had a political flavor. Nevertheless there are real differences. Large deposits are maintained by firms which are frequently heavy borrowers. It is these depositors who are able to exercise the right of offset in case of bank failure; they are better able to get the facts concerning their bank's condition. Until recently it was assumed that they were much less subject to alarm than the mass of depositors. In the banking crisis in March the withdrawals and transfers by corporation treasurers was a leading cause of embarrassment to banks. Bank "runs" may still be a hazard even if 99 per cent of the depositors are fully covered and have confidence in the solvency of the Insurance Corporation.

Influential bankers and banker organizations fought deposit guaranty to the last ditch. The Economic Policy Commission of the American Bankers Association condemned it in a report dated May 15, 1933.

Even after the bill had passed Congress, a concerted effort was made to persuade President Roosevelt to veto the measure. This opposition has not abated since the passage of the bill. Threats have been made by large banks that they will forfeit membership in the federal reserve system rather than participate in a program which they believe to be fundamentally unsound and discriminatory. It is reported that steps are being taken to repeal or amend the law in the next session of Congress. In these days of revolutionary change it is unwise to enter the realm of prophecy, but it appears now that we are committed to federal deposit insurance for some years to come. Moreover, the threat of withdrawal from federal reserve membership is not a new one. National banks in large number protested against compulsory membership in the federal reserve twenty years ago when the act was before Congress, and threatened to take out state charters rather than be coerced into joining. In the end they all remained in the national system. The restrictions upon branches of state member banks contained in the McFadden act brought a vigorous protest from the large state banks of California. But they, too, elected to retain their membership in the system rather than gain the greater freedom in branch extension accorded to non-member banks.

Millions of depositors have lost in the past decade through bank failure, and the public is demanding safety for bank deposits. In the past five years postal savings have mounted from approximately $150,000,000 to $1,200,000,000. Millions, perhaps billions, have gone into safety deposit boxes and into hiding. Deposit insurance may restore confidence and draw back into the banks some of their lost deposits. Bank runs should be less of a threat. In these ways the banks will have some offset for the cost of the insurance.

In order to avoid a repetition of the disastrous experience with state guaranty systems, certain principles must be adhered to. The standards of admission must be kept high. This may prove to be a boomerang to some of the weaker banks that have been looking to deposit insurance as a means of reëstablishing public confidence in their soundness. The Comptroller and the federal reserve officials must utilize the very broad power conferred upon them by the Act to remove officers and directors guilty of unsound banking practices. The Federal Reserve Board may fix the interest rate on time deposits in all member banks. This power must be used where necessary to prevent banks from bidding for deposits at a rate which is higher than conservative practice warrants.

Federal insurance has certain elements of strength as compared with the state system. It has wider diversity of risk; political pressure is less apt to prove a menace; the fund is much larger even relative to the risk incurred; it goes into effect after the most drastic weeding out process to which our banks have been subjected since national banking was founded seventy years ago. It appears possible, therefore, for this plan to suc-

ceed where state systems have failed and, at the same time, not to prove unduly burdensome to the sound banks. Admittedly a doubtful and hazardous experiment, deposit guaranty is with us and must be so administered as to achieve the maximum of good with the minimum of danger to sound banking standards.

Limiting participation in deposit insurance to members of the federal reserve system was responsible for broadening the conditions of membership to include mutual savings banks and industrial loan banks. This is a radical departure from the original purpose of the federal reserve and may eventually bring about some far-reaching changes in the functions of the federal reserve banks. Mutual savings banks, however, will gain little by joining. Aside from borrowing upon the security of government bonds the mutuals have practically no way of obtaining advances from a federal reserve bank, and will benefit but slightly by such service features as check collection and wire transfer of funds. Suggestion has already been made, therefore, to segregate the reserve belonging to mutual savings banks and to provide therefrom discount facilities for their type of securities.

The test of the ability or willingness of mutual savings banks to become members seems likely to be delayed for some time. They may participate in deposit insurance until July 1, 1936, without joining the federal reserve system, or even making application to join. By that date they must have been admitted to membership or withdraw from the Insurance Corporation. There appears to be little to gain by immediate membership; loss of interest upon reserve balances will be the price paid. The new law prohibits the payment of interest upon demand deposits by national and state member banks, but makes an exception for the demand deposits of mutual savings banks. At present the rate is merely nominal. No interest will be paid upon the 3 per cent reserve which a mutual savings bank must deposit with the federal reserve bank as soon as it becomes a member. Even a small rate of interest is better than none at all. A further reason which will delay actual admission of mutual savings banks will be the readjustments that will ordinarily be found necessary before a savings bank can qualify for membership.

When legislation was first proposed, the chief ends were permission for national banks to establish out-of-town branches and to provide federal supervision of group banking. Extension of branch privileges to an inter-community basis was urged in order to provide better country banking facilities. The heaviest bank mortality, especially before 1931, had been among the small rural banks. Hundreds of communities had been deprived of banking facilities. The absence of bank failures in Canada was cited as evidence in favor of a branch system. Students of the subject realized that we could not, if we would, transform our banking structure at once into one composed like that of Canada of a few sys-

tems with nation-wide branches. The experience of the United States with state-wide branch banking since the establishment of the national banking system has been very limited and cannot be regarded as furnishing conclusive evidence either for or against a more widespread type of branch banking. Nevertheless, extension of branch banking powers was generally urged and became an important element in the proposed national banking legislation from the outset.

The extent to which branch banking may ultimately be carried in this country is not clear; but the broader powers in this direction, conferred upon national banks by the Banking act, were inevitable and desirable. Most of the bitter partisanship that characterized branch banking discussions during the four sessions when the McFadden act was pending in Congress was absent. Small unit bankers were still fearful that branch banks would drive them from the field and wanted protection in so far as they were satisfactorily serving their communities. Competent observers of recent branch banking developments recognized that we must proceed with caution. Legislation to be acceptable, therefore, must necessarily recognize certain definite qualifications. No one realized this better than Senator Glass who largely wrote the branch banking section.

First among the elements of a sound legislative program was that there should be administrative control of branch extension. This should prevent over-expansion, the establishment of branches in towns where adequate banking facilities now exist on an independent basis, and the stock booming practices and other abuses that have attended the creation of branch and group systems in the past. In the earlier drafts of the Glass bill this responsibility was placed in the hands of the Federal Reserve Board; in the Banking act, as passed, it resides with the Comptroller.

In the second place, there must be provision for adequate capital of branch banks in order to restrict the branch privilege to large and presumably strong banks. There are two limitations in the law: first, the general requirement that the capital shall be $500,000 for banks desiring to establish inter-community branches; second, that the aggregate capital of the bank and its branches must, at no time, be less than the aggregate minimum capital for an equal number of unit national banks located in the various places where the bank and its branches are situated.

The territorial limitation to be imposed upon branch extension was the point upon which there was widest difference of opinion. A few branch bankers boldly advocated nation-wide branches;[54] former Comptroller

[54] Mr. A. P. Giannini, founder of the Bank of America National Trust and Savings Association of San Francisco (formerly the Bank of Italy), the most extensive branch system of America, urged this in his testimony before the House Committee. See Hearings, *op. cit.*, p. 1539.

J. W. Pole urged "trade area" branches; limitation to state lines or closely contiguous territory was widely supported. Canada has branch systems extending from coast to coast. This may be the ultimate result of our own branch banking experiment, but it appears to be too great a step to undertake at the outset. The "trade area" proposal is logically more defensible than restriction to political boundaries. But a "trade area" is indefinite whereas state lines are fixed. Ultimately, therefore, the limitation to state lines was accepted. It can be confidently predicted that branch banking will be widely extended by state legislation within the next few years.[55]

Group banking, especially the holding company form, has grown to present proportions partly because of the prohibition of branch banking. Federal supervision of group systems has been long overdue. Affiliation with a soundly managed group system has added strength in many instances. On the other hand, group membership has proved to be a disastrous liability to a successful local bank drawn into weak or speculative company through group affiliation. Examination and supervision of bank holding companies, as provided in the new law, should reduce the danger of unsound management. Failure of bank holding companies to provide against double liability has subjected them to special criticism. The new law attempted to obviate this objection by creation of a partial reserve against losses. In the light of experience it is doubtful whether double liability is worthy of preservation but, in so far as it is retained for individual stockholders, some provision should also be made to collect it from bank holding companies.

It is generally conceded that branch banking is preferable to group banking from the public standpoint, and more economical for the bank. Washington and Oregon groups have already taken steps to convert part or all of their affiliated banks into branches. This tendency is noted elsewhere since the change in the law. It will not be possible, however, to make over all group systems into branch banks. Only a minority of the states permit state-wide branches. Moreover, the larger group systems, notably those having headquarters in the Twin Cities, operate in several different states. Group banking will remain, and hence the provision for supervision is a commendable feature of the new law.

One of the major objectives which Senator Glass kept constantly before himself and his colleagues was to incorporate in the banking bill provisions to prevent the undue diversion of member bank funds into speculative operations. This purpose is embodied in the preamble of the

[55] An official summary of state laws relating to branch banking has been published in the *Federal Reserve Bulletin* from time to time, the last of which appeared in July, 1932. At that time nine states permitted state-wide branches or agencies. According to unofficial reports during the past year, new legislation has been adopted making possible some form of state-wide branch banking in at least six additional states—Idaho, Maine, Nevada, Oregon, Utah, and Washington.

Act as passed; and, in order to make it effective, the law increases the powers of the federal reserve banks and the Federal Reserve Board over member banks. These powers are summarized above in the section dealing with the provisions of the Act. Control of speculation proved to be a baffling problem for the federal reserve authorities during the boom period of 1928-29. The new law gives them the necessary authority; it remains to be seen whether it can be applied effectively.

A provision of the bill, which will change materially the present structure of American banking, is that in regard to the separation of investment and commercial banking. The integration of these two through the development of active bond accounts and security affiliates, is largely a post-war development.[56] The investment division was a very profitable unit of the bank when stocks and bonds were booming. Moreover, it made many friends for the bank. But the heavy losses subsequently suffered by bank clients caused a strong revulsion of feeling against the bank. Banks opposed the divorce of security affiliates when this was first incorporated in the Glass bill and urged regulation instead. In more recent months, there was no effective opposition because security selling has ceased to be profitable and some of the larger banks had already taken steps to eliminate their security affiliates.

There are a number of sections of the law which need clarification, either by an official interpretation or a court decision. Prominent among these is Section 22 which states that "the additional liability imposed upon shareholders in national banking associations . . . shall not apply with respect to shares in any such association issued after the date of enactment of this Act." This was the only entirely new section added to the Glass bill (S. 1631) by the conference committee. What constitutes an issue of stock for this purpose? The Comptroller has informally ruled that mere transfer of stock from one person to another would not constitute an issue of stock. Change in par value; consolidation of two national banks;[57] or reissue for some nominal reason will not relieve the stockholder of double liability. Apparently where a bank increases its capital, only the shares representing the additional capital will be exempt from double liability.[58] This will result in a bank having outstanding assessable and non-assessable stock and will be very confusing.

The situation with respect to double liability, under the national banking act, has always been unsatisfactory. Less than half of the amount

[56] See H. H. Preston, and A. R. Finley, "Investment Affiliates Thrive," *American Bankers Association Journal*, May, 1930, p. 1027; also "Era Favors Investment Affiliate," *ibid.*, June, 1930, p. 1153.

[57] Section 24 states explicitly that "the consolidated association shall be deemed to be the same corporation as each of the constituent institutions."

[58] Pamphlet, *Replies to Inquiries on Banking Act of 1933*, American Bankers Association, New York.

of the assessments levied upon stockholders of failed national banks has proved collectible. This is inequitable. Many conscientious stockholders, ignorant of the liability they were incurring, have found the assessments a crushing burden. It has deterred certain financially responsible individuals from investing in bank stock. The amount realized by the depositors from this source has not been important; its chief benefit has been to bring about needed additions to capital of going banks and to facilitate reorganizations and mergers. On the whole, the evils appear to the writer to outweigh the advantages.

The new law on this point is not a remedy. It would be better either to put real teeth in the law[59] or to abolish it altogether. If double liability is abolished, it should be accompanied by a measure requiring a higher ratio of capital to deposits. The typical bank has a ratio of capital to deposits of approximately 1 to 10. This has been a constantly declining ratio here and abroad. Complete elimination of double liability should be accompanied by a gradual increase in capitalization.

The elimination of interest on demand deposits and the reduction of interest on time deposits, which will probably result from giving the Federal Reserve Board power to fix rates, will save the banks a portion at least of the cost of deposit insurance. One immediate result of the elimination of interest on bankers' balances has been a pronounced reduction in this class of deposits in the New York banks. This was an unwelcome consequence from the standpoint of the large city banks. Banks have sought means, such as offering additional free services, to attract and hold the accounts of correspondent banks. The Comptroller has undertaken to discourage these practices where they are engaged in clearly with the intention of circumventing the law. Some shift has been made from demand to time deposits as a consequence of the elimination of interest on demand deposits.

Control of interest rates should make it possible to correct abuses that in the past have weakened banks. Interest of 5 per cent on savings deposits was not uncommon in country banks, especially in the Middle West. This necessitated investment of the bank's funds in high yielding but frequently hazardous securities. The right to limit interest is an essential weapon to prevent banks from unfair competition under deposit guaranty where deposits are granted equal protection.

The Board has not yet (September 1) fixed interest rates on time deposits. An interesting question which is still unanswered, therefore, is whether or not it will differentiate between the rate (dividend) al-

[59] Washington, in a new banking code adopted February, 1933, requires all new state banks to deposit with the State Treasurer approved securities equal to the par value of the bank stock. Existing state banks must also build up a fund by setting aside 1/3 of future dividends for this purpose.

lowed to depositors in mutual savings banks and commercial banks. Typically the mutuals have paid a higher rate and would be reluctant to forego doing so.

The law is an important step toward unified banking. After July 1, 1936, all banks which take advantage of the deposit insurance provisions must be members of the federal reserve system. The branch banking powers of national banks have been extended to place them on a parity with the state banks. It seems likely, therefore, that within two or three years federal reserve membership will be almost universal. Unified banking is a much needed reform. In his testimony before the Senate committee in February, 1931, Mr. Owen D. Young urged federal control of all commercial banking.[60] This was not the first time that such a suggestion had been made, but because of Mr. Young's prominence as a banker and business man and as Chairman of the Young Plan Commission, the suggestion coming from him attracted special attention. Economists have urged the same thing.[61] Mr. Eugene Meyer, Governor of the Federal Reserve Board, prefaced his comments and recommendations on the Glass bill with the following statement: "It should be recognized that effective supervision of banking in this country has been seriously hampered by the competition between member and nonmember banks, and that the establishment of a unified system of banking under national supervision is essential to fundamental banking reform." It was not to be expected that complete unification could be achieved in one step. If the outcome of the present measure is, as we anticipate, to bring practically all banks under federal reserve supervision, it will be a distinct gain. Eventually all banks may become national institutions.

At various points the law adds to the powers and responsibilities of the Federal Reserve Board. Edmund Platt, former Vice-Governor of the Federal Reserve Board, has noted twenty separate paragraphs which increase its powers.[62] The Board will have a more independent status. The control of the funds for the payment of expenses of the Board will now be within its own hands. The law specifies that the principal offices of the Board shall be in the District of Columbia. Formerly the Secretary of the Treasury was authorized to assign quarters for the Board in the Treasury Building. The Board members have had their offices in the Treasury Building; other departments, for instance, the Division of Research and Statistics, have been housed several blocks away. The Board has needed a building of its own in which provision

[60] *Commercial and Financial Chronicle,* 132: 963-5, Feb. 7, 1931, or *Annalist* 37: 308-9, Feb. 6, 1931.

[61] See, *e.g.,* W. E. Spahr, *American Economic Review, Supplement,* March, 1932, pp. 223-225.

[62] Edmund Platt, "The Reserve Board's Difficult Assignment," *American Bankers Association Journal,* August, 1933, p. 11.

should also be made for offices for the Comptroller of the Currency and the new Deposit Insurance Corporation. The Board has been given broad powers over the use of bank credit in speculation. It can fix interest rates on time deposits, has supervision over foreign relations, is legally charged with responsibility for the open-market operations of all the federal reserve banks, is responsible for granting voting permits to holding companies. Perhaps most important of all, the Board may remove officers and directors of member banks upon the basis of facts certified to it by the Comptroller or a federal reserve agent.

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## THE BRITISH EXCHANGE EQUALIZATION ACCOUNT

Great Britain's little-known but successful experiment in foreign exchange control ended its first year on June 30, 1933. The Exchange Equalization Account, which came into force with the Finance act of 1932-33, was given resources of £150,000,000 plus the assets of a former exchange account. The purpose of the account was officially stated to be the control of capital movements and the prevention of a rise in sterling. Its operations were secret. The pound was permitted to fall to $3.14 in November, 1932; but it rose soon afterwards, and a rapid drain of gold to Great Britain was achieved by means of the operations of the Exchange Equalization Account in connection with the flight of American capital. The flow of gold was halted by the American gold embargo in April, 1933. At this time the resources of the exchange account were enlarged by £200,000,000. This addition, together with gains from skillful trading, compensated the Exchange Equalization Account for losses incurred in gold transactions with the Bank of England. Although the exchange fund has operated successfully, its prolonged use would produce a serious expansion of the public debt.

Stabilization of foreign exchange rates in peace time is by no means the untried weapon which the early discussions at the World Economic Conference implied. The assumption that a country which has left the gold standard is necessarily a country in chaos, as far as the foreign exchanges are concerned, was unjustified in the light of British experience. Great Britain's recent and successful experiment in exchange control was at hand, ready for study; but almost no use was made of it in those first confused and at times acrimonious days. Yet at that very moment the British were holding the sterling-franc rate almost steady, although Great Britain had left gold and France was still clinging to it; and their success in holding the sterling-dollar rate close to $3.40 through the eventful first months of 1933 was not far behind.

A world economic order which is obviously to be forced as never before to control its currencies and its foreign trade in the interests of general revival has much to learn from the first year's experience of the British foreign exchange control. British gold supplies, price levels, export markets and financial prestige were involved. The skillful handling of the exchanges in support of these interests probably cannot be duplicated by less experienced and less unified countries; but there is no country which could not profit by a scrutiny of the British procedure.

### I

Great Britain had completed almost a year of exchange control when the Monetary and Economic Conference opened in London on June 12, 1933. The fund for controlling the sterling rate on the foreign exchanges, the Exchange Equalization Account, came into existence on July 1, 1932, with the Finance act for 1932-33. Its management was apparently successful in fulfilling its aims, with the possible exception of a few weeks late in 1932, until the United States abandoned the gold standard.

The fund's achievements, meanwhile, were spectacular. Through its

operations the pound was held at approximately $3.40 during the flight of American capital in the first quarter of 1933. By purchases of *devisen* (foreign exchange) the Bank of England acquired gold at the average rate of £19,800,000 ($96,600,000) a month from the beginning of February through April, 1933, thus recovering three times the amount of gold paid by Great Britain to the United States as the debt installment of the preceding December, and bringing the Bank's gold reserves to the highest point in history.

The British plan for a fund to control the foreign exchanges was first made public on April 19, 1932, seven months after Great Britain herself abandoned the gold standard. In the course of his budget speech of that date the Chancellor of the Exchequer, Mr. Neville Chamberlain, described the "disturbing influence" of the recent transfers of [American] liquid capital upon the foreign exchanges, particularly the sterling exchange, and observed that "if we are to avoid violent and perilous fluctuations in our currency, especially those which are due to these speculative operations, if we are to enable this country to function effectively as the main international center of the world, then it is essential for us to hold adequate reserves of gold and foreign exchanges, in order that we may meet any sudden withdrawal of short-dated capital and check and repel these speculative movements."[1]

The Chancellor of the Exchequer announced that he proposed to wind up the old exchange account, to use the assets as the nucleus of a new fund to be called the Exchange Equalization Account, and to borrow up to £150,000,000 additional for the fund. The details of the assets in the account were not to be published. Mr. Chamberlain continued:

> That will give us a very large and extended power of purchasing exchange. The new powers . . . will enable us to deal far more effectively than we could otherwise have done either with an unwanted inflow of capital or, if the alternative should again arise, with an outflow of capital from this country.[2]

In view of the interest in the United States, a year later, in the question whether the Exchange Equalization Account was intended to be the chief weapon in a trade or currency war, and whether one of its chief objects was the depreciation of sterling against the dollar, the government's own phrasing of its intentions has value. On May 25, 1932, the Minister of Health, Sir Hilton Young, in explaining the project to the House of Commons, spoke of "preventing a sharp rise in sterling at the present time." The phrase, in context, follows:

> . . . What is the specific purpose of the fund? It is to maintain the stability of sterling; in other words, to prevent a sharp rise in sterling at the present

[1] *Parliamentary Debates, Commons*, vol. 264, col. 1425 (19 April, 1932).
[2] *Ibid.*, col. 1426.

time. The purpose of the fund at the present time is to prevent a sharp rise. As long as we do that and keep sterling down to its present level, the result is to draw gold out of its hoards all over the world. Between £50,000,000 and £60,000,000 of gold has been drawn out of its hoards in India. That is a most desirable object.[3]

The clauses carrying the Exchange Equalization Account (Clauses 21-23, Part IV of the Finance bill for 1932-33) had a somewhat stormy passage through the House of Commons, partly for the reason that the secrecy surrounding the new account was most unpalatable to certain members. On June 9, 1932, the day of the third reading of the bill, Colonel Wedgwood moved to amend by leaving out the chief clause dealing with the fund, on the ground that "the risks involved to the taxpayer in the use of this fund are very considerable." The amendment was lost, but in the course of his supporting speech Colonel Wedgwood made an oddly prophetic remark, as follows:

We are trying to prevent the dollar falling relatively to the pound; in other words, to prevent the pound rising relatively to the dollar. We are buying dollar exchange and gold. . . . If the fund is to be used by these methods that we have seen in the last two months then I say that the initiation of the Exchange Equalization Account is going to be disastrous to this country without saving the dollar from going off gold.[4]

The Exchange Equalization Account had assets of £150,000,000, plus approximately £25,000,000 from the old dollar exchange fund, when it entered upon its official existence on July 1, 1932. When it became known that on the first of July the floating debt had been increased by £150,000,000, it was assumed that the Treasury had provided the whole sum at one time, rather than by stages as had been planned, in the interests of greater secrecy. The duties of the fund, as expressed in the Finance act of 1932-33, were to invest "in securities or in the purchase of gold in such manner as they think best adapted for checking undue fluctuations in the exchange value of sterling."

The first act of the fund was to purchase from the Bank of England the bank's holdings of *devisen*. It then proceeded to buy and sell dollars and other currencies so as to stabilize sterling, but at a lower level than it would (probably) have maintained without such pressure. The pound, which was close to $3.80 on April 1, 1932, had been pegged at a point just under $3.70 in May and early June,[5] apparently as a means of transition to the lower rate desired. From $3.70 it was allowed or compelled to fall to approximately $3.50 in July, August and September.

Meanwhile the Treasury was engaged in an operation of great magni-

[3] *Parliamentary Debates, Commons*, vol. 266, col. 433 (25 May, 1932).
[4] *Parliamentary Debates, Commons*, vol. 266, col. 2184 (9 June, 1932).
[5] "A Year off Gold," *Economist*, September 24, 1932, p. 537.

tude, the conversion of £2,000,000,000 of five per cent war loan into a three-and-one-half per cent obligation. From the domestic point of view the mammoth operation was highly successful. The conversion of 92 per cent of the loan, (£1,835,000,000, or about $9,000,000,000 at par) received the assent of the war loan holders, according to an announcement by the Chancellor of the Exchequer at the beginning of October. A foreign exchange problem of some gravity, however, was created by the necessity of transferring abroad by the first of December the very considerable share of the remainder which was held by "unassenting" foreigners. The precise amount demanded by foreigners was not made public, but estimates range from £60,000,000 up to an amount approaching the total unassented section of £165,000,000.

Great Britain faced, therefore, in the autumn of 1932, foreign transfers amounting to perhaps $400,000,000 on the war loan account, as well as the relatively unimportant sum of $95,000,000 due the United States as the December instalment of the intergovernmental debt. It is characteristic of the peculiar political situation which has always underlain the government debts that the smaller payment should cause strain between the two countries, while the larger was made successfully and without complaint. The foreign exchange market, however, is not so easily confused as the chancelleries. Foreigners at once began to repatriate their funds by selling the pound short in anticipation of the payment of British war loan.

In response to this pressure, to the speculative uncertainties of the payment to the United States, and possibly to other factors, the pound fell in October and November, 1932, to the lowest point in history, $3.145 on November 29. In certain less informed circles it was assumed that the Exchange Equalization Account's resources were exhausted and that British control of the sterling rate had failed. It was generally believed in the financial markets, however, that during most of this period the fund stepped aside and let the exchange take its course; and that on one occasion, at least, it resisted a rise in sterling. The New York *Times* version of the fund's behavior on that occasion is as follows:

STERLING JUMPS, OFFICIALLY CHECKED

The action of the British authorities in stepping in to check yesterday's advance, which was in contrast to their passive acceptance of the recent decline, was construed in foreign exchange circles as a further indication that Britain's monetary policy is more concerned with preventing an undue appreciation of the pound than in stopping a cheapening of exchange. The official sales of exchange, it was remarked, had the advantage of providing the Bank of England with further dollar balances.[6]

[6] The New York *Times*, November 12, 1932, p. 21, col. 7.

British informed opinion also inclined to the belief that the authorities had the situation fairly well in hand. On account of the government's insistence that complete secrecy must be maintained with regard to the work of the fund, only unofficial comments are available. The two selected may, however, be considered semi-inspired.

It is evident . . . that the pound might have been kept around $3.40 but for the exceptional circumstances of the time—the repatriation of post-gold standard foreign money invested in British government stocks such as five per cent war loan and the war debt to the United States government. The managers of the exchange account wisely let the exchange drop, but support was given at $3.15 and 80.3/8f to the pound.[7]

The question is often asked why the authorities have allowed sterling to fall to so low a dollar value as now obtains, particularly as they have reinforced their equipment by the establishment of the Exchange Equalization Account. . . . So little is known as to the actual operations of the exchange account that statements as to its utilization or non-utilization, or indeed the absence of any such statements at all, should be treated as very insecure ground for deductions as to policy and practice.[8]

Taking still another point of view of the efficacy of the exchange fund during the decline of sterling in the autumn of 1932, other factions have criticized the authorities for a kind of official speculation. A writer in the London *Sunday Times* for February 19, 1933, maintained that by a clever handling of the fund's resources a rather neat profit of some £20,000,000 had been made during sterling's rise from $3.14 to $3.44. The *Economist* has expressed a somewhat similar conclusion:

In general it [the account] bought sterling last autumn when the pound was falling, and sold sterling heavily early this year, but it was always liable to turn round without warning, and its operations were deliberately made incalculable from one minute to the next.[9]

Responsible opinion, therefore, leans toward the belief that the Exchange Equalization Account was capable of supporting the falling pound in the autumn of 1932 at any time and at any point which might seem desirable. There are certain indications that the fund may have made appreciable gains by buying pounds low and selling them high. It has even been hinted, in unofficial quarters, that the sterling decline was engineered with this particular purpose in mind.

Another windfall was shortly to enrich the Exchange Equalization Account. On December 15, 1932, the British made the American debt payment by means of the transfer of £19,500,000 ($95,500,000) in gold. In the course of 1932 the gold holdings of the Bank of England had increased, curiously, by almost exactly the amount due the United States

[7] *Times Annual Financial and Commercial Review* (London), February 7, 1933.
[8] Midland Bank *Monthly Review*, November-December, 1932, pp. 1-2.
[9] *Economist: Banking Supplement*, May 13, 1933, p. 7.

in the December instalment; that is, from approximately £120,000,000 to approximately £140,000,000. The method of transferring this equivalent of the year's gains was as follows:

The British government debited itself with the market value of £19,500,000 in gold; that is, with £29,500,000. But the Bank of England, from which the gold for transfer to the United States must be bought, is required to do its gold trading at par. The government's payment to the bank was, therefore, only £19,500,000. The remainder of the sum granted, £10,000,000 was turned over to the Exchange Equalization Account, to "remain as an asset," as the Chancellor of the Exchequer explained, until it should be "required for the purpose of buying gold again at the current price of the day."[10]

## II

Such was the preface to the gold drain from the United States in the first quarter of 1933. The Exchange Equalization Account was now to have a greater opportunity to show its skill. Sterling, aided by the flight of American capital to shores where financial management was more reliable than in the United States, was already rising from the artificially low point of November 29, 1932. The pound reached $3.33 on December 22 and $3.39 on January 7. The fund could now check sterling's tendency to rise to its natural level by selling pounds for dollars, demanding gold for the dollars, and selling the gold to the Bank of England.

The Exchange Equalization Account apparently began to take gold in considerable quantities early in January, for by January 12 the Bank of England had already recovered £6,600,000, or one-third of the gold transferred to the United States on December 15.[11] At first it was assumed that the fund was in no haste to convert its foreign currencies into gold and to sell the gold to the Bank of England; for the bank's figures, spectacular as they were, did not fully reflect the gold shipments known to have been made from abroad. It was pointed out, however, that the fund ran a greater risk in holding gold currencies than in holding gold itself, for gold currencies can leave gold unexpectedly and depreciate in the hands of the holders. It is now believed, therefore, that the fund lost little time in turning its dollar purchases into gold.

Steadily the accumulation of gold by the Bank of England went on. Curiously, in each of three months the bank's gold stock increased by approximately the amount of the December debt payment; until, by the middle of April, three times the gold paid out in December had reached the bank. A warning was given by the London *Evening Standard* as

[10] *Parliamentary Debates, Commons*, vol. 273, col. 473 (December 14, 1932).
[11] *Federal Reserve Bulletin*, February, 1933, p. 62.

early as February 20, that the inflow of gold was "making the June payment inevitable." By April 5 the Bank of England's gold had surpassed the maximum post-war gold stock (£177,000,000 on September 12, 1928) and had reached the highest point in history. And still the gold poured in. The final large transaction before the check came was reported as follows in the *Wall Street Journal* for April 19, 1933:

> Purchase of £4,468,121 of bar gold by the Bank of England Tuesday morning [April 18] was the largest purchase for any one day since England suspended the gold standard in September, 1931, and is one of the largest purchases in the history of the bank. It brings the total gold reserve of the Bank of England to another new record high of about £184,789,000.

Abruptly, with the declaration of the American gold embargo on April 19, the flow of gold into Great Britain was halted. Only earmarked gold could now be taken from the United States. The Exchange Equalization Fund could still attempt to hold up the dollar, but it would need enlarged resources. Meanwhile the franc must not be permitted to rise. It was difficult to hold the franc down, but after a loan of £30,000,000 to the Franch government and skillful work on the exchanges the pound-franc rate was held close to 86 francs for the next few weeks.

The following summary of the Bank of England's gold stock, as reported weekly by the *Economist*, shows the phenomenal growth of the holdings before the American embargo and the moderate changes after that time.

| *Date* | *Gold held by the Bank of England* (Millions of pounds) |
|---|---|
| January 11, 1933 | 121 |
| February 22, 1933 | 143 |
| March 29, 1933 | 173 |
| April 19, 1933 | 185 |
| (American embargo declared, April 19) | |
| April 26, 1933 | 187 |
| May 31, 1933 | 187 |
| June 28, 1933 | 191 |

The American gold embargo was a serious blow to the sterling rate, as well as to the aspirations of the fund for the further increase of the Bank of England's gold. The pound rose at once from the average of just above $3.40 which it had maintained through February, March and the first part of April to $3.90 on April 20. British disappointment and criticism of the American action were of course natural, for it was obvious that "the bargaining power of the United States was thereby strengthened."[12]

[12] *Economist*, April 22, 1933, p. 850.

Although the Exchange Equalization Account could no longer anticipate success in keeping the pound low against the dollar, an increase in the resources of the fund was announced by the Chancellor of the Exchequer in his budget speech of April 25. Mr. Chamberlain took pains to state, however, that "there is no connection whatever between the American action and the increase in the Exchange Equalization Fund, which was decided upon long before we had any conception that the United States might go off the gold standard."[13] It is difficult to believe, however, that a country with the financial skill shown by the Exchange Equalization Account was taken by surprise. In fact Sir Robert Horne had discussed the possibility in the House when the fund was first proposed:

> There are rumors in the world that America may go off the gold standard. Frankly, I do not believe anything of the kind can or will happen. . . . The mere fact that we refuse to believe it possible will be a great help in stiffening their position.[14]

On May 4 it was announced that the sum to be added to the Exchange Equalization's Account's resources was £200,000,000. This brought the amount known to have been granted to the account to £385,000,000, or about $1,500,000,000 at the rate of exchange then current.

The Chancellor of the Exchequer now found it advisable to take account of America's increasing awareness of the size and power of the Exchange Equalization Account, to complain that his explanations had been unfairly interpreted in the American press, and to insist that "the purpose of the addition is not for forcing down the value of the pound relative to the dollar."[15] The true object of the fund's operations, he continued, was the "levelling up of minor fluctuations in the exchange," a process made necessary by the presence in England of "refugee capital," or "capital which came here because the owners of it got alarmed about conditions in their own countries, and came to the conclusion that for the time, at any rate, their capital was safer in London than anywhere else."

The increase demanded for the account was approved, but the dollar, detached from gold, could no longer be controlled. By the first week in June the pound had passed $4.00 and was still rising. The pound-franc rate, however, was kept steady in May and June at approximately 86 f. by the methods formerly used against the dollar.

A slight check to the privileges enjoyed by the Exchange Equalization Account for nearly a year came on June 1, 1933, when the Chancel-

[13] *The Times* (London) April 26, 1933, p. 8.
[14] *Parliamentary Debates, Commons*, vol. 264, col. 1505 (April 20, 1932).
[15] *The Times* (London), May 5, 1933, p. 8.

lor of the Exchequer was forced to make concessions with respect to the wall of secrecy which surrounded the account. Mr. Chamberlain warned the members of the House of Commons that they were dealing with matters with which they had had very little experience, and that if they went too far they might destroy the usefulness of the fund. He consented, however, to the monthly publication of figures showing the fund's holdings, on the last day of each month, of foreign *devisen* and gold.[16]

The account then received a frontal attack on an issue which had been suppressed with difficulty at the beginning: the question of the methods by which it was financed. Obviously a billion and a half dollars do not grow on trees, even in a rich commercial country. When funds appear from nowhere in particular it is not long before the cry "Inflation!" is heard.

It was heard in the House of Commons on June 21, 1933. Labor Party insistence that the government was "inflating extensively to provide the Bank of England with money for the biggest exchange gamble in history" precipitated the attack. The government was even accused of taking the public's savings from the postal banks for this purpose. The Financial Secretary's hurried description of the financing of the account was accurate enough, but its convolutions brought roars of laughter from the critical House. On the same day the financial editor of the *Daily Herald* (Labor) wrote:

> Although inflation of the currency is being disguised by depositing gold at the Bank, money is actually being created in consequence of the issue of Treasury bills. . . . However much the transaction may be disguised, it seems clear that the government is inflating to an enormous extent with . . . exchange operations on which a huge loss may eventually be made.

## III

Three aspects of the financing of the British Exchange Equalization Account are of interest in an analysis of a foreign exchange control of this type: the way in which its original assets are provided, its trading methods, and its prospects of profit or loss. Advantageous as secrecy on this matter may have been to the British government, it was clear that it could not long remain complete.

The resources of the Exchange Equalization Account come from the provision of Treasury bills and are accordingly reflected in the floating debt. Initially this is a bookkeeping operation, but as soon as the fund exchanges its Treasury bills for other assets, they pass into circulation, and the increase in the floating debt becomes effective. The figures for the floating debt are published regularly, but comments on the part played by the Exchange Equalization Account appear infrequently. One such comment appeared in *The Times* for May 24, 1933:

[16] *The Times* (London), June 2, 1933, p. 8.

The Exchequer returns for the past week show that, on the expenditure side, £200,000,000 has been issued to the Exchange Equalization Account in accordance with the budget resolution. As this issue is financed by Treasury bills the floating debt shows a heavy increase on the week, and is now not far short of £1,000,000,000. This addition to the debt however is quite nominal, for the Exchange Fund is really invested.

The change in the floating debt within the year which corresponds roughly to the first year of the fund's operation has been as follows:[17]

| *Date* | *Floating debt* (Millions of pounds) |
|---|---|
| June 11, 1932 | 628 |
| March 31, 1933 | 810 |
| June 10, 1933 | 1,015 |

In twelve months the floating debt has increased by £387,000,000, or about $1,500,000,000 if the pound is taken at $4.00. This covers the assets granted to the Exchange Equalization Account, which is known to have received £385,000,000, altogether, of which £350,000,000 was obtained through increases in the floating debt.

In its *Banking Supplement* for May 13, 1933, the *Economist*, recognizing the "doubt [which] seems to exist both at home and abroad as to the nature of functions of the Exchange Equalization Account," has given a partial explanation of the operations of the account. The fund—the explanation runs—buys foreign exchange from a London bank which has acquired it, perhaps as "refugee capital." To furnish itself with resources for this purchase, the Exchange Equalization Account probably sells some of its Treasury bills to the Bank of England, which acts as its banker. The account then pays the commercial bank with a check on the Bank of England.

The Exchange Equalization Account is now in possession of foreign exchange, which it converts into gold (provided, of course, that the country from which the exchange came has not yet declared a gold embargo). The account sells this gold to the Bank of England. The Bank, however, by the terms of the Finance act of 1932, pays for the gold at par. The Exchange Equalization Account, which has bought the metal in depreciated sterling at a higher figure, incurs a considerable loss whenever it makes such a sale of gold to the Bank of England. In time such losses would exhaust the funds held by the account. "This may be one reason why power is now being taken to increase the size of the account," concludes the *Economist*, reasonably.

The British journalist who writes as "Augur" has described this situation as he saw it early in March, 1933:[18]

[17] *Economist*, June 17, 1933, p. 1327.

[18] The New York *Times*, March 12, 1933, IV, p. 3, col. 1.

The fund buys the gold in the open market, or by presenting the foreign currencies it possesses. In any case, the price it pays for the metal is anywhere at about 30 per cent higher than the old parity of the pound. But the Bank, according to its statutes, still buys in for itself at the old parity. This means that the fund, or the British Treasury, and therefore the British taxpayer, in the final reckoning, stands to lose a large sum if these transactions are continued for some time.

Although the two explanations show an agreement as to the essentials, the latter is the more acute. If we wish to assume, with the *Economist*, that the British taxpayer is willing to continue this process indefinitely, satisfaction may be derived from the knowledge that the £385,000,000 with which the account, in one way and another, has been provided fully covers the losses on the £70,000,000 of gold which the Bank of England gained in the first six months of 1933 as well as the £19,500,000 paid the United States on December 15, 1932.

Confusion lies, not in this simple computation, but in the assurance by the Chancellor of the Exchequer, in response to persistent questioning, that the account has incurred no permanent losses. On May 4, 1933, Mr. Chamberlain repeated to the House of Commons the statement of the Financial Secretary that "at the time he was speaking there was no loss but a balance on the right side, subject to realization. That showed that the operations of the account had been conducted with great skill."[19] The assurance, which must be taken at its face value, gives support to the conclusion that the Exchange Equalization Account has been handled with superlative skill and patriotism. The account, with its large resources and its official position, has entered the foreign exchange markets and has apparently been able to beat the speculators at their own game, as well as to manipulate at will the currencies of countries with less experience.

From the point of view of the close of the first year's work, comments made earlier in the year thus take on fresh meaning. The estimate which appeared in the (London) *Sunday Times* on February 19, 1933, that the Exchange Equalization Account had already made a profit of £20,000,000 by careful work in the foreign exchange markets has already been mentioned. A correspondent of the New York *Times* said in that paper on March 7, 1933:[20]

> A far-reaching program of selling the pound short was begun [in October, 1932] by Great Britain. After the Dec. 15 payment was made the pound again rose. Then . . . the stabilization account began to buy low and sell on the rise, realizing a good profit.

Sir Josiah Wedgwood, acute and troublesome critic of the account in the House of Commons from the beginning, wrote to the London *Times*

[19] *The Times*, May 5, 1933, p. 8.
[20] The New York *Times*, March 7, 1933, p. 2, col. 4.

in a less respectful vein. His letter, which was published on March 9, 1933, ran in part as follows:

> I wish I had more faith in the wisdom of the Treasury in buying gold and dollars, instead of leaving it to you and me. But at least we may enjoy that "one touch of nature" which unites the British Treasury and the dog-track tote devotee. Gambling is great fun, especially with other people's money.

In the light of these comments on the achievements of the Exchange Equalization Fund, one of the observations with which the explanation in the *Economist's Banking Supplement* is concluded may be reproduced without remark:

> There has for some time been an impression abroad that the account was being operated in a way prejudicial to foreign interests, and it was even suggested that the refusal last January and February of the British authorities to allow the pound to rise was one of the causes of the accentuation of the American crisis. It is to be hoped that the above description of the workings of the account will already have dispelled such misconceptions.

## IV

The secrecy with which the work of the Exchange Equalization Account has been done lends great difficulty to an appraisal of its work. Unless the true purposes of such a piece of machinery are known it is obviously impossible to estimate the degree of success with which the machinery has been operated.

The announcements of the purposes of the account which have been made by the Chancellor of the Exchequer and other members of the government associated with the plan conceal more than they explain. It is apparent, however, that their import changed within the account's first year. The announcement of the account which was embodied in the budget speech of April 19, 1932, indicated that the purpose was the control of movements of capital, either inward or outward. Later a member of the government made public the official intention to "prevent a sharp rise of sterling at the present time." In the first six months of 1933 the government's emphasis, reproduced faithfully by the press, was upon "smoothing out minor fluctuations in the exchanges."

If the work of the Exchange Equalization Account is to be judged by its attainment of these goals, its success must be judged uneven but in some instances remarkable. Capital inflows and outgoes have undoubtedly felt the influence of the fund, but it is significant that when the government was in earnest about preventing an outgo, at the time of the war debt conversion, the method of embargo was used by the Chancellor of the Exchequer. The "prevention of a sharp rise in sterling" has, on the other hand, the British virtue of understatement. Sterling not only failed to rise; it fell steadily and steeply from the time

when the organization of the fund was first announced to the end of the following November; and it showed no signs of regaining that high point of April, 1932, until it escaped from control with the United States' abandonment of the gold standard.

The exchange control has also been successful in "smoothing out minor movements in the exchanges"; but it would appear, from the steadiness of the dollar exchange from the middle of January, 1933, to the declaration of the American gold embargo, and of the franc exchange from immediately after the gold embargo through the end of the fund's first year, that *major* movements of the exchanges were not beyond the scope of the Exchange Equalization Account's activities.

There are further successes, and those more spectacular, which the Exchange Equalization Account has achieved, without ever a word spoken in Parliament, except by an occasional uncontrollable backbencher, to indicate that intelligent Englishmen were aware of what was going on. It would strain the credulity of the most simple-minded to imagine that the rapid increase of the gold holdings of the Bank of England to the highest point in history was accomplished by accident or—as the British Empire is said to have been created—"in a fit of absence of mind." By April, 1933, American representatives were wiring from London that the restoration of the gold standard was under discussion. By June, 1933, the technical possibility of that restoration was publicly granted by English bankers. An honest observer should admit that the combination of skill and patriotism in the highest degree had won a deserved success.

There has also been talk, among dissenting members of Parliament and in the more outspoken section of the press, of a "currency war" or a "trade war," either presumably directed against the United States. An outspoken Labor member of the House of Commons, Mr. Bevan, aroused a certain uneasiness when he said in the House on May 9, 1933, that "it was a lot of cant and hypocrisy to suggest that this money [the additional £200,000,000 for the fund] was wanted for any other purpose than to carry on exchange war"; and Mr. Boothby of Aberdeen when he argued that "the operations of the Exchange Equalization Account had done trade no good," and had only "aggravated" American opinion.

No intelligent foreigner can believe that the persistent and successful efforts—or so they appear to many observers at home and abroad—to depress sterling relative to other currencies which were characteristic of the operation of the Exchange Equalization Account in its first year were unrelated to the needs of trade; just as no serious student can be convinced that they were unrelated to the gold needs of the Bank of England. The *Economist's Commercial History and Review of 1932*, for example, indicates the facts in the observation: "Imports in 1932—

*thanks to the depreciation of sterling* and the imposition of the new customs duties—declined much more sharply than exports."[21] (Italics the present writer's.) By May, 1933, with the dollar in turn depreciated, this tendency had been arrested.

The ambitions of the account with respect to domestic and world prices have not been revealed. It has been the publicly announced policy of the British government to coöperate in principle with other nations to bring about a recovery in world prices, but it is probable that there has been little effort to raise home prices. In any event, the latter varied only slightly in the period under review.

The stability of prices is consistent with the fact that no serious inflation of the currency can be attributed to the operation of the Exchange Equalization Account. The note circulation of £375,000,000 on June 14, 1933, represented an increase of only £18,000,000 over the circulation on the corresponding date the year before. The fund's first year of work was reflected in an ominous increase in the floating debt, the rise of which by £387,000,000 to a point well above £1,000,000,000 has been discussed earlier.

It is appropriate that the words of a French observer, Frédéric Jenny, financial editor of *Le Temps*, should conclude this survey of the first year's work of the British Exchange Equalization Account.

> The game which consists in combating speculation and in counteracting international movements of capital by a kind of official counter-speculation is not without drawbacks when prolonged. The Bank of France realized this in 1928. And the unlimited growth of the public debt, whereby a rise in exchange would be prevented, would also become a public danger. If matters were pushed too far that again would tend to create fresh germs of instability, compromising future tranquillity and security. So that, in spite of technical possibilities which might appear theoretically unlimited, a moment might come when stabilization by reverting to the gold standard would appear infinitely preferable to the artificial support of the unstable equilibrium of a paper currency, obtained by costly means and at the price of an effort constantly tending to combat the natural play of supply and demand.[22]

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[21] *Economist, Commercial History and Review of 1932,* February 18, 1933, p. 5.

[22] Frédéric Jenny, "Sterling and the Gold Standard," *Lloyds Bank Limited Monthly Review,* June, 1933, p. 242.

# THE BANKS, THE STATES AND THE FEDERAL GOVERNMENT

The assertion is frequently made that the federal government has no constitutional right to interfere with state banks and end the present rivalry of jurisdictions by assuming exclusive control of all banking. Contrary to this assertion, the terms of the Constitution require such an assumption; for exclusive control of the monetary functions has been bestowed upon Congress and banking is a monetary function. Before the Civil War, when note issue abuses by the state banks frustrated federal control of the monetary system and made a chaos of the currency, it was commonly held by authorities that state banks were unconstitutional. The same practical, economic, and constitutional considerations that were involved in the question of state and federal banking control at that time, when bank liabilities were represented chiefly by circulating notes, are involved now when bank liabilities are represented chiefly by demand deposits.

## I

At the convention of the American Bankers' Association in Los Angeles in October, 1932, the state bankers declared themselves "unalterably opposed to the so-called unification of all banking under federal control in place of the present dual system of state and national banks." Mr. Felix McWhirter, retiring president of the State Bank Division, said in his address: "You have no doubt been astonished, as have I, to observe the thought seriously presented that Congress has the constitutional power to prohibit state chartered financial institutions from operating at all. . . . The thought, of course, is so grotesque as to be little short of amusing."[1]

This thought which Mr. Felix McWhirter finds grotesque and even amusing is the contention of the present essay. It will be held that the Constitution not merely permits but *requires* that the power of the states to charter commercial banks be discontinued, and that control of commercial banking be exercised by the federal government alone. This contention rests first on the fact that the Constitution expressly gives Congress control of the monetary system and expressly forbids interference with it by the states; and, second, on the fact that commercial bank deposits are the principal element of that system.[2] This does not imply a one-sided transfer of authority from state to federal sovereignty, but

[1] *Commercial and Financial Chronicle,* A. B. A. Convention Section, October 22, 1932, pp. 59-60.

[2] The power of Congress over the monetary system is not the only power under which unified control of commercial banking is legally attainable; there is also the power to create and maintain a banking system and the power to regulate interstate commerce. See the opinion of Mr. Walter Wyatt, General Counsel of the Federal Reserve Board, *Federal Reserve Bulletin,* March, 1933, pp. 166-186. The first definite suggestion that commercial banking might be brought under federal control on the ground that it was a monetary function appears to have been made by Mr. Owen D. Young at a Senate committee hearing, February 4, 1931. See 71st Congress, 3d Session, Hearings Pursuant to S. Res. 71, p. 354. Mr. Young merely held however that control of commercial banking was constitutionally permissible.

a constitutional division of functions according as they fall properly within the sphere of one or the other sovereignty.

What the Constitution says is that Congress shall have power "to coin money" and "regulate the value thereof"; and that "no state" shall "coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts." It has always been clear and undisputed that in these terms exclusive control of the monetary system was bestowed upon Congress. But it has not been equally clear and undisputed what the monetary system comprised.

Thus it was a long time before bank notes became effectively recognized as part of that system. Even after they had usurped completely the place which the authors of the Constitution had expected coin to play, there was still resistance to the idea that they were money. It was only after federal control of the monetary system had been stultified continuously for three-quarters of a century that Congress finally assumed the exclusive responsibility over bank note issues, a responsibility which the Constitution implicitly bestowed upon it. Another three-quarters of a century have now elapsed since demand deposits outgrew circulation and took the first place as a medium of payments. So there is ground for hope that Congress will awaken again, and more understandingly than before, to its exclusive responsibility for whatever becomes by evolution the substitute for coin and the principal element of the monetary system.

If the authors of the Constitution could have foreseen that bank notes and eventually demand deposits would be playing the part of the bills of credit which they forbade, consistency with their observations and votes in the Federal Convention would have required that they forbid the states to authorize bank notes and demand deposits as well.[3] But they could not foresee such a thing. There were then only three banks in the country, all recently organized. The notes that they were issuing were modest in amount, and although they were already in a minor way a substitute for money, they were not considered money. They were considered, legally and practically, as mere promises to pay, and only different from ordinary promissory notes in the fact that they were specialized for transfer through many hands. The prevailing view was that expressed by Adam Smith in 1776:[4]

> When the people of any particular country have such confidence in the fortune, probity, and prudence of a particular banker, as to believe that he is always ready to pay upon demand such of his promissory notes as are likely to be at any time presented to him; those notes come to have the same cur-

[3] The votes were eight to one for putting an *unconditional* prohibition upon emission of bills of credit by the states. *Debates in the Federal Convention, 1787 (Madison Papers)*, edited by Hunt and Scott, pp. 477-478.

[4] Adam Smith, *Wealth of Nations*, Cannan's edition, I (book II, ch. II), p. 276.

rency as gold and silver money, from the confidence that such money can at any time be had for them.

By 1810, however, the matter had begun to look somewhat different, for the number of banks and the volume of their issues had enormously increased. It began then to be said that if bank notes completely took the place of money they were themselves money, and if they made nugatory the control of the monetary system by Congress they were unconstitutional.[5] It is true that to some it seemed that since the Constitution mentioned neither banks nor bank notes, it offered no help for the situation.[6] To others, however, it was obvious that though economic evolution had brought about a shift from one medium to another, this did not affect the principle by which responsibility for the money of the country had been laid on Congress. Dallas expressed this opinion in his message to Congress in 1815.[7]

Calhoun urged the same view. His argument in a speech made February 26, 1816, was that the federal convention had intended to give Congress exclusive control of the monetary system; that subsequently there had sprung up great numbers of state banks; that as a result there had been "an extraordinary revolution in the currency of the country"; that "by a sort of undercurrent the power of Congress to regulate the money of the country had caved in"; that the state banks had usurped it, "for gold and silver are not now the only money," since "whatever is the medium of purchase and sale" was the money of the country; and that the state banks should "be caused to give up their usurped power."[8]

He admitted that there was "no provision in the Constitution by which

[5] This question seems to have been raised first by Taylor of South Carolina in a speech in the House, April 13, 1810, on rechartering the United States Bank. He said: "With respect to state rights, I believe it is more easily to be demonstrated . . . that the states are constitutionally prohibited from erecting banks in their own states than this government from erecting the bank we are now discussing. I fancy these bank bills are but bills of credit after all, which the Constitution expressly prohibits the state governments from issuing; . . ." *Annals*, 11th Congress, 1st and 2d Sessions, p. 1806.

Crawford of Georgia, in the Senate, February 20, 1811, explained his position in the following words: "When I had the honor of addressing the Senate before, I questioned the authority of the state governments to create banks. I then stated, and I again explicitly state, that it is with reluctance that I have felt it my duty to make any inquiry into the constitutional right of the state governments to incorporate banks. The state legislatures ought to have recollected the Spanish proverb which says that those who live in glass houses ought not to throw stones. Before they undertook to question the constitutional authority of Congress, they ought to have thoroughly examined the foundation upon which their own right rested." *Annals*, 11th Congress, 3d session, p. 339.

[6] See Giles of Virginia, in the Senate, February 14, 1811. *Annals*, 11th Congress, 3d Session, p. 189.

[7] *Report of the Secretary of the Treasury*, December, 1815, p. 41.

[8] *Annals*, 14th Congress, 1st Session, pp. 1059-1062.

states were prohibited from creating banks which now exercise this power"; but, he explained, at the time the Constitution was composed banks were "but little known." No man could have foreseen, he said, that "from being consistent with the provisions of the Constitution, and the exclusive right of Congress to regulate the currency," they should become "directly opposed to it."

In December, 1830, Gallatin in his *Considerations on the Currency and Banking System* observed that with the exception of those powers relating to the conduct of foreign affairs, "there are no powers more expressly and exclusively vested in Congress of a less disputable nature, or of a greater general utility, than those on the subject of currency."[9] But with reference to the utilization of those powers he said, "It was not at all anticipated, at the time when the former Bank of the United States was first proposed, and when constitutional objections were raised against it, that bank notes issued by multiplied state banks, gradually superseding the use of gold and silver, would become the general currency of the country."[10] He also said, "Subsequent events have shown that the notes of state banks, pervading the whole country, might produce the very effect which the Constitution had intended to prevent by prohibiting the emission of bills of credit by any state."[11]

The first prominent advocates of the constitutional principle that Congress possessed exclusive responsibility for the monetary system and whatever came by substitution for coin to be components of it were all Jeffersonians—such men as Madison, Gallatin, Dallas, Calhoun, and Crawford. And on this principle their political opponents—especially Henry Clay and Daniel Webster—differed from them only as to details.[12] Speaking in the Senate, May 25, 1832, Webster said:[13]

[9] Albert Gallatin, *Writings*, edited by Henry Adams, III, p. 320.

[10] *Ibid.*, p. 330.

[11] *Ibid.*, p. 331. In 1833 W. M. Gouge, in his *Short History of Paper Money and Banking in the United States* (p. 138) said: "The state governments have no constitutional power to establish state banks, or any other kind of paper-money issuing institutions. They are expressly prohibited to 'emit bills of credit.' *Qui facit per alias, facit per se.* He who does a thing by others, does it himself. State banks and incorporated paper-money banks are palpable violations of the Constitution, and would be acknowledged to be so by everybody, if interest did not blind men's eyes to the truth."

[12] Clay said in the House, March 9, 1816: "The plain inference is that the subject of the general currency was intended to be submitted exclusively to the general government. In point of fact, however, the regulation of the general currency is in the hands of the state governments, or, which is the same thing, of the banks created by them." *Annals*, 14th Congress, 1st Session, p. 1194. See also remarks of Senator Barbour of Virginia in the same tenor, March 25, 1816, *Annals*, 14th Congress, 1st Session, p. 242.

For contrary argument that the power to create a bank which should put its "promissory notes" into circulation had nothing to do with the power to make a "metallic medium," see address of Wells of Delaware in the Senate, April 1, 1816, *Annals*, 14th Congress, 1st Session, pp. 260-261.

[13] *Debates*, 22d Congress, 1st Session, p. 957.

> It cannot well be questioned that it was intended by the Constitution to submit the whole subject of the currency of the country, all that regards the actual medium of payment and exchange, whatever that should be, to the control and legislation of Congress. . . .
>
> The exclusive power of regulating the metallic currency of the country would seem necessarily to imply, or more properly, to include as part of itself, a power to decide how far that currency should be exclusive, how far any substitute should interfere with it and what that substitute should be. . . . But notwithstanding this apparent purpose in the Constitution, the truth is that the currency of the country is now . . . practically and effectively under the control of the several state governments; . . . for the states seem first to have taken possession of the power and then to have delegated it (to the state banks).

Yet nothing was done about this usurpation—and mainly for the reason divulged by Randolph of Virginia, who speaking of the state banks in the House in 1816 had asked "however great the evil of their conduct might be, who was to bell the cat?" "You might," he said, "as well attack Gibraltar with a pocket pistol as to attempt to punish them."[14]

This also explains why more positive action was not taken as a result of the Supreme Court's decision in McCulloch *v.* Maryland in 1819, when it was affirmed that Congress had the power to establish a bank with branches in the states regardless of the states' consent. In Chief Justice Marshall's words, it was the Court's unanimous "conviction that the states have no power . . . to retard, impede, burden, or in any manner control, the operations of the constitutional laws enacted by Congress to carry into execution the powers vested in the general government." But in the existing political situation it was one thing for Congress to have a constitutional right and another thing to be able to exercise it.

Consequently until the war broke out between the states and advantage could be taken of the intense spirit of nationalism in the North, nothing was done. The effort to continue the United States Bank, which Calhoun recommended in 1834 as at least a partial exercise of the federal government's responsibility for the monetary system, was killed by Andrew Jackson with the eager assistance of the state banks. But the suspension of 1837 gave his lieutenant and successor, Van Buren, an occasion to turn against the state banks also. He opined that the authors of the Constitution would have interdicted not only the issue of bills of credit by the states, but "their issue as a currency in any other form," had the

[14] *Annals,* 14th Congress, 1st Session, p. 1112. See also remarks of Forsyth of Georgia in the same tenor in the House, March 5, 1816, *Annals,* 14th Congress, 1st Session, p. 1141. The McDuffie Committee and Gallatin also considered it politically infeasible to attempt to destroy the state banks.

extension of banking been foreseen.[15] But as it was, he felt there was nothing the federal government could do beyond removing its business from the offending banks, and admonishing the states to carry out the responsibility they had over them. The states did nothing generally effective however, and the currency chaos endured for years.

Then John Sherman of Ohio, who entered the Senate in 1861, resolved to attack the state banks with the weapon that Albert Gallatin had suggested thirty years before—destructive taxation. Sherman wrote:[16]

> My study and experience as a lawyer in Ohio convinced me that the whole system of state banks, however carefully guarded, was both unconstitutional and inexpedient and that it ought to be overthrown. When I entered Congress I was entirely prepared, not only to tax the circulation of state banks, but to tax such banks out of existence.

Sherman introduced legislation looking toward this end and on January 8, 1863, he addressed the Senate. The following is his own summary of part of his argument:[17]

> I next stated the objections to local banks. The first was the great number and diversity of bank charters. . . . We had every diversity of the bank system in this country that has been devised by the wit of man, and all these banks had the power to issue paper money. With this multiplicity of banks, . . . it was impossible to have a uniform national currency, for its value was constantly affected by their issues. There was no common regulator; they were dependent on different systems. . . . There was no check or control over these banks. There was a want of harmony and concert among them. Whenever a failure occurred . . . it operated like a panic in a disorganized army; all of the banks closed their doors at once. . . .

Almost immediately thereafter Sherman abandoned his independent line of attack in order to support the more comprehensive plans of Secretary Chase, who had already in his two annual reports raised the question of the constitutional control of the currency.

In 1861 he had said:[18]

> It has been well questioned by the most eminent statesmen whether a currency of bank notes, issued by local institutions under state laws, is not in fact prohibited by the national Constitution. . . .

The following year he had said:[19]

> Statesmen who have agreed in little else have concurred in the opinion that the power to regulate coin is, in substance and effect, a power to regulate currency and that the framers of the Constitution so intended.

[15] *Messages and Papers of the Presidents*, compiled by Richardson, III, p. 342, pp. 553-554.

[16] John Sherman, *Recollections of Forty Years*, p. 231.

[17] *Ibid.*, pp. 236-237.

[18] *Report of the Secretary of the Treasury*, 1861, p. 17.

[19] *Ibid.*, 1862, p. 21.

With Sherman and the Administration united, a national banking system was quickly authorized. But not, of course, without opposition, an important source of which is indicated by an announcement of the superintendent of banks of New York that if the attempt were made to organize any of the new national banks in his state he would resort to the courts to prevent it.[20] Possibly because of this hostility, the original legislation (the Sherman act of 1863) put no pressure on state banks to convert to the new system. It even permitted them to take out national currency without changing their charters,[21] though the Comptroller, Hugh McCulloch, nullified this provision by administrative action, and it was dropped from the revised act of June 3, 1864.[22] It was hoped and even expected, apparently, that the state banks would voluntarily enter the national system, surrendering their state charters. But as soon as it became evident after a year or two that they would not accept this euthanasia, the original project to tax them out of existence was returned to. Speaking for his measure February 27, 1865, Sherman said:[23]

> The national banks were intended to supersede the state banks. Both cannot exist together; yet while the national system is extending, the issues of state banks have not materially decreased. Indeed, many local banks have been converted into national banks, and yet carefully keep out their state circulation. . . .
>
> If the state banks have power enough in Congress to prolong their existence beyond the present year, we had better suspend the organization of national banks.

There was a brief, bitter, and unsuccessful opposition. The measure meant, as its opponents said, the destruction of the state banks, and no bones were made about it.[24] The point arose again when the constitutionality of the tax was brought in suit before the Supreme Court in 1869 in the case of Veazie Bank *v.* Fenno. The majority opinion read by Chief Justice Chase took cognizance of the argument that the tax was intended to destroy the state banks and would destroy them, but made it clear that such a purpose was fully within the constitutional powers of Congress, considering the object in view.[25] It substantially affirmed

[20] *Report of the Secretary of the Treasury on the Condition of the Banks,* December 22, 1863, p. 88.

[21] Act of February 25, 1863 (Sherman act), Sections 62, 63.

[22] *Report of the Secretary of the Treasury* (including first *Comptroller's Report*), 1863, p. 55.

[23] *Congressional Globe,* 38th Congress, 2d Session, p. 1139.

[24] *Congressional Globe,* 38th Congress, 2d Session, pp. 1194-1198, 1238-1244, 1286-1287.

[25] One ground of the dissenting opinion in this case was that if Congress could destroy the power of the states to charter banks, it could destroy their power to charter *corporations of any sort.*

the right of Congress to do what it sought—extend its exclusive authority over all the recognized components of the monetary system.[26]

If note issue had continued to be the predominant banking function that it had been, the aim would have been achieved. But just as the intent of the Constitution had already been frustrated by the development of state banks of issue, so now it was frustrated anew by the development of state banks of deposit.

## II

Behind this development was the circumstance that bank liabilities heretofore carried as circulation came to be carried as deposits. The proceeds of notes discounted by banks and of orders drawn on them tended more and more to be taken by bank customers in the form of credits rather than in the form of the bank's own bills. The change is borne out in the comparative figures of circulation and deposits for those years, which indicate that in 1855 the deposits of banks permanently passed their circulation.[27] The greater growth of deposits is probably due in part to the increase of savings, but nevertheless deposit accounts at present perform an incomparably greater monetary function than do notes, which indeed are of far less relative importance now than deposits were a hundred years ago.

The shift that was occurring was something to which legislators in the sixties were generally insensible. They failed to see that notes and deposits were merely alternative forms of a bank's liability; and that a prohibition upon liability in one form left the way clear for banks to put it in the other—even encouraged their doing so—with the result that the growth of deposit banking was probably stimulated. They were thinking of currency only in its formal aspect. They were seeking to bring all the recognized components of the monetary system under federal control; but they failed to recognize what all the components were. What they seized upon for regulation was indeed the component that most needed to be reformed, but it happened also to be obsolescent. Therefore, while the effect of the prohibitory tax was striking and beneficial, yet in reality it merely hastened the end of a usage that was already disappearing.

The result of the tax was that about two-thirds of the state banks went out of business as such immediately. The total number in operation in 1868—when the figure was lowest—was 247, out of a total of 1,887

[26] For a summary of such cases, see *Federal Reserve Bulletin*, March, 1933, pp. 166-186. It seems safe to say that confirmation by the Supreme Court of federal powers begrudged by the states has nowhere been more emphatic than in cases involving banking and the monetary system.

[27] *Report of the Comptroller of the Currency*, 1920, II, p. 847.

incorporated banks, state and national.[28] Of these state banks that survived and multiplied, it might be said that they escaped the prohibitory tax simply by altering their bookkeeping, though there was also involved a corresponding change of practice by their customers. It is easy to see how differently the development would have been viewed, if the purpose of the tax had been to raise revenue. Then the shift from circulation to deposit accounts would have been called an evasion, and it would have been apparent that the liability was taxable in one form quite as much as in the other.

Meanwhile, however, the substantial identity that existed between notes and deposits in spite of the superficial differences between them, had from time to time become apparent, though to no one person does the whole chain of thought seem to have occurred by which demand deposits are logically put under the exclusive control of Congress. Understanding has always lagged behind experience, and the different relationships have become evident only as circumstances have directed attention upon them. On some occasions it was clearly recognized that deposit liabilities and note liabilities were functionally identical. On others it was clearly recognized that bank notes were a constituent of the monetary system and should therefore be authorized only by Congress. But that, if note liabilities were the same as deposit liabilities, and if both were money, then deposits belonged constitutionally under the control of Congress seems not to have been concluded till the present.

Apparently the first person to discern that notes and deposits were merely alternative forms of liability was Alexander Hamilton, though he did not describe either of them as money, but merely as substitutes for coin. In his report on a national bank (December 14, 1790) he pointed out in well known words that the credit which a borrower receives upon the books of a bank is not always withdrawn in the form of bank notes or gold or silver, but "by a check or order" is transferred to another.[29] "And in this manner," he said, "the credit keeps circulating, performing in every stage the office of money." Yet he did not conceive of either the credit or the note as displacing coin to the extent of becoming the actual and most frequent medium of payment and therefore a part of the monetary system. That conception came very shortly though.

On March 3, 1809, Albert Gallatin, in a communication to the Senate on the Bank of the United States, said, after pointing out how the creditor of a bank might either hold bank notes or have a credit on the books of the bank, that "the aggregate of those credits, and of the bank notes issued, constitutes the circulating medium substituted by the banking operations to money; for payments from one individual to another are

[28] *Ibid.*, p. 152, 847.

[29] Alexander Hamilton, *Works*, Lodge's edition, III, p. 391.

equally made by drafts on the bank, or by the delivery of bank notes."[30]

Twenty-two years later he said again of notes and of deposits, that "we can in no respect whatever perceive the slightest difference between the two; and we cannot, therefore, but consider the aggregate amount of credits payable on demand . . . as being part of the currency of the United States."[31]

Gallatin's perspicacity was exceptional, however. For the most part ideas of the relation of note liabilities and credit liabilities were confused and inchoate, as may be illustrated by the following contradictory statements of Daniel Webster. On May 28, 1832, he said in the Senate:[32]

> The power of issuing notes for circulation is not an indispensable ingredient in the constitution of a bank merely as a bank. The earlier ones did not possess it, and many good ones have existed without it.

Yet in 1839, seven years later, when he was arguing the case Bank of the United States *v.* Primrose before the Supreme Court, he said:[33]

> What is that, then, without which any institution is not a bank and with which it is a bank? It is a power to issue promissory notes with a view to their circulation as money.

The relative place of note issue and deposit credits in banking was still mystifying people fifty years later, when painful efforts were made to explain the anomaly that, though the financial business of the country was growing enormously, bank note circulation was not. In view of such discussions, Professor Charles F. Dunbar, in his essay, *Deposits as Currency*, found it necessary in 1887 "to recall the fact that there is a kind of bank circulation more important than bank notes."[34] He said:

> In view of the extraordinary growth of this kind of credit currency, the mere question of the amount of national bank notes in circulation sinks into insignificance, and with it the question whether their place must be made good by other descriptions of paper, as, for example, greenbacks.

By 1910, thought on the subject had sufficiently caught up with experience that Mr. Paul M. Warburg could invert the traditional relationship between notes and deposits, and define the former as a comparatively unimportant variant of the latter. "Bank notes," he said, "are deposits on demand in bearer form, passing as cash."[35]

Meanwhile the function of bank credit had been more voluminously

[30] *American State Papers, Finance,* II, p. 351.

[31] Albert Gallatin, *Writings,* edited by Henry Adams, III, 268. See Harry E. Miller, *Banking Theories in the United States before 1860,* ch. 11, for numerous others who emphasized the monetary function of demand deposits.

[32] *Debates in Congress,* 22d Congress, 1st Session, p. 984.

[33] Daniel Webster, *Works,* edition of 1851, VI, p. 127.

[34] C. F. Dunbar, *Economic Essays,* p. 173, p. 179.

[35] Paul M. Warburg, *Federal Reserve System,* II, p. 174.

discussed in England, especially in relation to the Bank act of 1844, which impliedly denied the essential identity of bank notes and bank deposits, and assumed that advances of credit could only be made in bank notes. Both the English Act therefore and our own National Bank act of twenty years later made the considerable error of ignoring the more important variety of bank money and resting currency regulation on the variety which was of lesser importance—only the English legislators made their error after an elaborate investigation, whereas ours never so much as realized that there was anything to investigate. The American H. C. Carey, in 1858, animadverted on the error of the Peel act;[36] but the principal critic of it was the British economist, H. D. Macleod, who said, in a typical passage:[37]

> Thus a right of action against a banker payable on demand is, in commercial circles, considered as money or cash, whether it be in the form of a bank note, a cheque, or a bank credit; and though, of course, in the strict *legal* sense, only the two former can be currency, yet, in a philosophical sense ... all three must be currency.

Macleod was a barrister and his approach to the subject of banking and credit was juristic even more than commercial. He recites a number of English decisions to the effect that bank deposits are money. He had the same delusion to encounter that confuses the subject here in the United States—the idea namely that money exists only in those forms which have been made legal tender; and his pugnacious dictum, "Every bank is a bank of issue," is probably a bit startling even today when its truth should be far more obvious than it was when he said it.

## III

Although it was loosely the intention and expectation of the sponsors of the National Bank act that all banks should come under federal control, they found it sufficient that the function of note issue was made national; the deposit function was not bothered about. Through this loophole the state banks crept back upon the scene. In 1892 they became more numerous than national banks, and in 1920 their aggregate resources became greater. The note issue privilege meanwhile lost its practical importance, and alarming indications arose that the national system, being without the more liberal advantages that state charters conveyed,

[36] H. C. Carey, *Past, Present, and Future*, pp. 180 ff. In another way American and English experiences parallelled one another. Parliament intended in 1697 to give the Bank of England a monopoly of banking, but made the mistake of being over-explicit and defined banking as note issue. The monopoly was effective only as to that function therefore, and the way was left open for the joint stock companies to engage in banking as a deposit function, just as our National Bank act 165 years later left it open for state banks to do so.

[37] H. D. Macleod, *Theory and Practice of Banking*, 4th ed., II, p. 307.

would dwindle away. National charters had to be decorated with new powers in order to make them attractive. In 1900 the minimum capital requirements for national banks were lowered to $25,000. In 1913 lower reserves were allowed for savings deposits, permission was given to make real estate loans, and fiduciary powers were authorized. Disturbed especially by the latter invasion of their field, the state banks struck back with persistent litigation purposed to break up the exercise of fiduciary powers under national charter.[38] They yielded only grudgingly from their boycott of the federal reserve system after the President of the United States had appealed to them to support it as a gesture of wartime loyalty, and after the pressure of war conditions had made it apparent that the system might prove of benefit to them. And they resisted the effort to procure for national banks the power to establish branch offices, although in many of the states they had that power themselves.

Meanwhile every evil, open or insidious, which has been generated by the jealous conflict between state and national systems has had a contaminating effect on the monetary function. Yet this is the very function upon which federal responsibility for banking hinges—it is the function which alone occasioned the establishment of the national banking system. If banking had not been essentially a monetary function—creating, that is, the principal medium of exchange—it would no more have been brought under federal jurisdiction than insurance or retail merchandising or any other economic activity left by wont to private enterprise.[39] It was recognition of the monetary function of banking that governed the long series of studies that began in the nineties, that sought to replace a bond-secured circulation with an "asset currency," and that finally bore fruit in the Federal Reserve act. The latter was a measure of monetary reform. Its purpose, among other things, was to supply the country with an elastic currency in the form of federal reserve notes. It related the issue and retirement of those notes to the needs of trade as reflected in the demand for bank credit. It also put an emphasis upon the commercial aspect of banking by the encouragement it gave to the use of acceptances and other forms of distinctly liquid commercial paper. All this was consistent with its purpose as a currency measure.

Yet at the same time, beside putting an outmoded emphasis upon currency in the form of notes, as compared with more fluid forms of bank credit, the act neutralized the good effects of its monetary provisions by

[38] For review of these cases, see C. S. Tippetts, "Fiduciary Powers of National Banks," American Economic Review, September, 1925.

[39] Daniel Webster said in the Senate, May 28, 1832: "On what ground is it then that Congress possesses the power not only to create a bank, but a bank of circulation? Simply, as I suppose, because Congress possesses a constitutional control over the currency of the country. . . ." *Debates*, 22d Congress, 1st Session, p. 985.

sanctioning time deposits and permitting real estate loans—a departure from sound commercial banking which was further encouraged by the McFadden act in 1927. In substance it adopted the old heresy that a currency can be based on the value of land and other forms of fixed capital. The error was aggravated by the flood of securities that rose to its crest in 1929 to the displacement of self-liquidating assets in the portfolios of banks. That the liabilities which were backed by such assets as real estate mortgages and bonds were in the form of deposits rather than in the form of circulating notes made no difference—those liabilities in either form were still the actual currency of the country, and that currency was being as surely impaired in value as were the paper issues of the eighteenth century based on the theory that for every dollar of wealth there should be a dollar of circulating medium.[40]

To suppose that if there had been no rivalry between the states and the federal government, there would have been no impairment of bank deposits, is probably too naïve; but it is indubitable that specific changes in our banking standards favorable to such impairment have been the direct outgrowth of the effort to make national charters more attractive to bankers than state charters. For every practice that experience has shown to have been bad, legislative encouragement is found. Moreover the effort to keep even with the states still persists; and the deposit insurance provision of the Banking act approved June 16, 1933, was justified in the mind of Senator Glass, according to the press, only because he felt it would give the national system a decisive competitive advantage over the state systems. The same Act exempts from personal liability the stockholders of national banks organized thereafter.

But it is doubtful if the rivalry between jurisdictions will ever be satisfactorily solved by enticements. This is a game two can play. In 1929 the superintendent of banks in Massachusetts, where banking practice and supervision have been of no low order, acknowledged the care that was taken to avoid legislation that should bear too heavily on state banks. For, he said, "if they find that the state legislature is inclined to be a little harsh on them, it will be very simple for them to convert into a national bank and be received with open arms. . . ."[41]

That the fundamental act which banking reform requires should lie in tardy obedience to provisions of the federal Constitution is a happy accident. Often that document puts some anachronism in the way of economic evolution. In this instance it clears the way. Only one weakness

[40] For recent discussion of the evils of mingling commercial and savings banking functions see F. A. Bradford, "Social Aspects of Commercial Banking Theory," American Economic Review, June, 1933, pp. 217-233.

[41] National Association of Supervisors of State Banks, Proceedings of the Annual Convention, 1929, p. 85.

can be alleged against the present interpretation of its monetary clauses; the fact that it does not mention banks or bank deposits. But this is merely the otiose argument used a hundred years ago about bank notes. And it is to be answered with the same words which were used against it then—by Calhoun when he said that Congress had exclusive power over "whatever is the medium of purchase and sale"—and by Webster when he said that "it was intended by the Constitution to submit the whole subject of the currency of the country, all that regards the actual medium of exchange, whatever that should be, to the control and legislation of Congress." This bestowal of exclusive power over the monetary system is one of the most definite that the Constitution makes. It is enunciated by a grant of power to the federal government, and a corresponding denial of power to the states, and it employs all the terms that in the understanding of its authors were necessary to comprehend the whole medium of payments. The vocabulary is not modern, but the intent is clear and sweeping. And as Marshall said in Craig *v.* Missouri —a case where the Supreme Court found that certain circulating warrants issued by the state were in the category of forbidden bills of credit —"the Constitution is not to be openly evaded in one of its most important provisions by giving a new name to an old thing."

But of course the point of constitutionality or unconstitutionality is in the final analysis an argument rather than a reason. The question is not an abstract one of jurisprudence. It is in its practical aspect a question of the political resistance to a change which so far as commercial banks are concerned would mean the establishment of a single inescapable jurisdiction over them, and so far as the states are concerned the surrender of what they have always considered an important element of their sovereignty.

In all likelihood the change would seem unwelcome to both, at least in prospect—though the banks are now on record as finding modification of the present irresponsible control "essential no matter at what cost of impairment of state sovereignty."[42] As for the states, the change should seem reasonable to them if viewed as a division of functions. For while demand deposits come under the federal government on grounds of expediency and constitutionality, because their use in monetary payments makes them a concern of the nation as a whole, the same is not true of fiduciary business and savings banking. In the case of fiduciary powers, indeed, there are now no federal laws to be followed; state laws and administrative authorities govern the exercise of such powers even by banks which belong to the federal jurisdiction. But even assuming that there is inconvenience and loss in the administration of these func-

[42] American Bankers Association, "Report of Economic Policy Commission," *Commercial and Financial Chronicle,* April 22, 1933, p. 2706.

tions by the several forty-eight states, the need for unity is less imperious with them than with the monetary function.

Accordingly, if the federal government monopolized control of commercial banking as a monetary function, and left trust business and savings banking to the states, it would merely be conforming to the Constitution and justifying the sagacity of the Federal Convention. The present conflict of jurisdictions would be avoided and the country would gain at last a homogeneous and unified monetary system. To be sure, in the light of the errors and omissions that have been made in the past, we can have no confidence that when such a division is made all difficulties will have been solved; there is for instance the possibility of legal subterfuges with savings deposits, to say nothing of other problems to arise from the evolution of economic practices in general. But that is no reason for allowing the present misarrangement to continue.

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# APPLIED MARXISM IN SOVIET RUSSIA

**It is argued that Soviet economic policy from 1921 to the present time has been shaped principally with the deliberate purpose of providing an environment such as would foster collectivistic habits of thought and behavior in replacement of their individualistic counterparts. The common interpretations of the policy as either (a) pure opportunism, or (b) mere industrialization (advancement of well-being), or (c) implementation of a socialistic state (strengthening of Soviet Russia vis-à-vis capitalistic national states), are not entirely rejected but are set forth as subordinate to the major desideratum. The policy is derived from, and involves the conscious application of, the principles embodied in Marx's *Theory of the Concentration of Capital* and his *Theory of Historical Materialism*. The substantive part of the new environment is conceived as a mechanized (interdependent) technology embracing the entire economy of the country. This is relied upon to proletarianize the whole population. The technology is being supplied by (a) a vigorous development of the heavy, capital-goods-producing industries, and (b) the mechanization of agriculture. The steady aim is to inculcate and stimulate a group-regarding bias in the common sense of the community at large.**

The fact that Marxian genetic principles serve as the basis for Soviet Russian policy is increasingly evident. It is the purpose of this paper to exhibit the use of these principles by Lenin and Stalin in adopting policies looking toward the foundation of a classless Socialist State in the U.S.S.R. It will be shown that the principal function of the economic policies adopted and applied during each of two periods—(1) that of the New Economic Policy from 1920-1921 to 1927-1928 and (2) that of the Piatiletkas (Five-Year Plans) from 1928-1929 to date—has not been to "plan" the Russian economy or to increase the national income. Rather, it has been to supply a technological basis for the cultivation of collectivistic forms of behavior. In the industrial sections of the country this meant the rebuilding and extension of the machine technique. In the agricultural sections it meant the undertaking of a great experiment in mechanization.

The Marxian theories implicit in this program are, chiefly, three. The law of the concentration of capital (corollary of the theory of value) points to the need not only of a complex, interdependent machine technique, but also, therewith, of a subordination of labor in the productive process. Habituation to the work-a-day life enforced by such an environment is calculated to attenuate, if not atrophy, individualistic tendencies and ambitions. Moreover, this new technology, as it permeates the village, is relied upon to precipitate the class struggle (the Marxian underlying motive-power of social change), which would rid the village of the remaining capitalist elements and habits of thought. The logic of supplying this technology and deliberately fomenting the class struggle derives from the doctrine of historical materialism.

Before discussing the application of Marxism during the first of the two periods, it will be necessary to retrogress briefly. That the

Bolshevik Party in the name of the State did become able to apply Marxism was due largely to the genius of Lenin during the events of 1917 to the winter of 1920-1921. His ability to interpret and weigh correctly the forces over which his Party was attempting to gain control seems to have been due to his grasp of Marxian evolutionary thought, especially that deriving from historical materialism.[1] During these years the Bolshevik Party acquired political sovereignty over both the industrial sector and the village. And events of the period had forced the Party to nationalize and control almost the entire economy of the country on the basis of a State organized system of barter. Foodstuffs and raw materials were requisitioned compulsorily from the peasants, and the output of State industry was supplied to them on as favorable terms as the situation permitted. Extreme centralization of control had resulted as the Party was forced to assume more and more of the functions of free competitive markets. The strife and general turmoil of this, and the preceding (World War) period, in addition to the growing impossibility of managing successfully the economy, led to a decline of industrial production of more than 85 per cent from the pre-war average and to a halving of the area under cultivation.[2]

With the coming of peace both from civil and foreign wars during the winter of 1920-1921 came the "breathing spell" for which Lenin had longed in 1918—an opportunity to apply Marxism in the hope of completing the revolution and establishing the essential technological basis of a classless State. This basis could only be provided in a national economy so mechanized and specialized as to make all elements indefeasibly interdependent. The task of the Party was, therefore, to frame a policy which would, first, rehabilitate what there was left of an interdependent technology in the industrial sector now badly in need of repair and manned only by a relatively inexperienced personnel, and, secondly, extend the mechanized technology into the villages, where it was completely lacking.[3]

If, as Marx had anticipated, the Party had come into the possession of power within a machine technique environment comparable with that, say, of the United States, in which there were a disciplined industrial

[1] *Cf.* Maurice Dobb, *Russian Economic Development since the Revolution,* chaps. 1-4, incl., N.Y., 1928.

[2] *Ibid.*, p. 195.

[3] Russia's pre-war industrial sector, while characterized by a high degree of large-scale establishments, included only about a fifth of the population. A large part of Russia's pre-war industries are not included in the U.S.S.R., *e.g.,* 21 per cent of the cotton-goods industry and 46 per cent of the woolen industry. Poland and the Baltic States contain many of pre-war Russia's large establishments. *Cf.* W. H. Chamberlin, *Soviet Russia,* p. 150, Boston, 1931.

proletariat and sufficient resources ready at hand, the problem of effective application of the Marxian theories would have been relatively simple. The industrial-proletarian sector would have been able forthwith to proceed with its task of introducing a new technology in the villages. But in view of the decline in production mentioned, if funds for rehabilitation were not forthcoming from abroad, food and raw material supplies for the industrial sector would have to be acquired in great part from the peasants, upon something more or less approaching a negotiative basis. Funds were not borrowed abroad and large-scale industry (formerly dependent on foreign capital) and its workers had to turn to the village. The policy that the Party adopted, therefore, had to face the fact that for some time to come the materials with which to rebuild the industrial sector and thereby furnish a pervasively collectivizing environment in the cities—not to mention the opportunity to create a new technological use and wont in the villages—would have to be acquired from within Russia herself, and that meant from the villages.

The New Economic Policy ("NEP") which Lenin advanced and which the Party adopted in 1921, consisted of:

(1) A restoration of private enterprise among the peasants and petite bourgeoisie engaged in urban trade and handicraft,

(2) Concessions to foreign capitalists to operate in the U.S.S.R. for profit either independently (subject to certain restrictions) or by means of "mixed" companies (half State—half private),

(3) The substitution of a tax in kind on peasant production in place of the policy of requisitioning their produce,

(4) A "Smytchka" between proletarian and peasant, that is, in trade between industry and agriculture. Industry must adapt its production to suit the immediate demands of the peasant market. At first, industry would require perhaps more from agriculture than it could return. But as industry improved its productivity, it was not to take advantage of its monopoly position in trade with the peasantry. Mutual trade should be the connecting link between the two sectors, the growth of one stimulating the growth of the other. And as time went on State industry should actively promote the extension of "coöperative collectivism" in the village by helping the "poor" and "middle" peasants to increase their productive efficiency, as well as by assisting them in commercial matters, such as the sale of their produce and the acquisition of tractors. This policy was to be advanced by means of economic persuasion on a voluntary basis, rather than by means of administrative pressure.

Finally (5), as the NEP was a "mixed system" (which Lenin called "State capitalism")—consisting in the beginning of large-scale State industry, "mixed companies," small-scale private industry, State farms,

collective farms, small-scale private peasant agriculture, coöperative trade and private profit-seeking trade—the socialized segments would have to "learn from these capitalist elements" how to lower costs of production and distribution. State industry and trade would begin the period of the NEP in command of the "key positions"—large-scale industry, finance, wholesale trade and transportation being in their hands—and as they learned from the capitalists, their function would be to extend their domain as the captains of industry and finance in capitalist countries extended theirs. They must "encircle capitalism" by becoming more productive (by concentrating their capital), until ultimately they destroyed the capitalist elements from which they learned.

To many of Lenin's comrades as well as to the world at large, the NEP was tantamount to a definite retreat to capitalism. But Marx's theory of the concentration of capital had taught Lenin that he who controls the "key positions" is the dominant economic power in the community. Therefore, argued Lenin, the State, in spite of the NEP's concessions to capitalism, would continue to occupy the positions of power such as are held by the captains of industry and finance in capitalist countries. The power of the workers' State in backward Russia would not be as great at first as that of the holders of the "key positions" in more industrialized countries. But as State industry and trade learned from the capitalists and applied certain methods described by Marx in the theory of the concentration of capital, the power of the workers' State would grow into a technology which would institutionalize collectivism in the industrial sector and enable it to stimulate "coöperative collectivism" in the village.

During the period from 1920-1921 to 1927-1928 Lenin's NEP was applied in spite of intra-Party opposition which will be mentioned shortly. To "encircle capitalism"—to supplant free private enterprise by State enterprise—required increasing amounts of circulating capital and a surplus for investment. The profit-seeking trusts which were set up following the introduction of the NEP were provided with their initial circulating capital by mobilizing what meager resources were procurable following the decline in output during 1914-1920. The trusts, which were permitted to operate freely on the markets, soon found themselves engaged in cut-throat competition, and, not being prevented by anti-trust legislation, formed syndicates to sell their output and buy their raw materials at prices fixed by mutual agreements. The peasant population constituted the bulk of the syndicates' market; and by 1923 the syndicates had so far taken advantage of their monopoly power both as buyers and as sellers, that the peasants drastically cut down their consumption (and later their production) and a typical "sales" crisis followed.

There then began within the party the debate which was to continue throughout the NEP, as to the way in which to acquire increasingly larger funds for industry.[4] Lenin's Smytchka, if maintained, meant that funds for implementing the new technology would either have to be borrowed from abroad or acquired largely by increasing the productivity of industry, as it was becoming apparent that the peasants, now producing for themselves and not for the landlords, could be induced to part with their produce only on terms of trade at least as favorable as they received before the war. In spite of the opposition within the Party, the Smytchka was maintained. As funds, meanwhile, were not borrowed abroad, State industry had to be restored by re-investing what Marx called "normal profits" arising from lowering the costs of production through rationalization, by increasing the turnover of the more efficient establishments, and by not raising wages as fast as labor productivity increased.[5] While accomplishing this, State industry was also broadening its base of operations, proletarianizing the petite bourgeoisie, to whom small-scale industries were leased in 1921, and supplanting the "mixed companies" and "concessions to foreign capitalists." Toward the close of the NEP period State industry had about reached the optimum output possible with the renovated pre-war equipment, but was only able to accumulate enough funds beyond these renovation requirements to meet current depreciation. The ability of State industry to produce at this time (1927) about equalled the pre-war industrial output. It had justified Lenin's faith in the theory of the concentration of capital by maintaining and extending the "key positions" with which it began the NEP. The creation of a technology in the industrial sector which could be relied upon to foster collectivistic institutions was well along the way to completion.

The methods employed during the NEP to socialize trade consisted mainly of those described in the theory of the concentration of capital. In 1921 the coöperative societies were given commercial and financial independence with a view to their handling the Smytchka trade between

[4] Certain factions wished to borrow from abroad, others to disregard the Smytchka and requisition a surplus from the peasants. All of these factions argued that Russia could not build Socialism alone, that is, could not procure the necessary surplus if the Smytchka was observed.

[5] Dobb writes: In dealing with the origin of capitalism Marx had used the term "primitive accumulation" to describe the accumulation of capital at the expense of the expropriation of small producers, directly and through the gradual pressure of monopoly in some form. This "primitive accumulation, playing in political economy about the same part as original sin in theology," when it had laid the basis of class division and inequality, gave way to normal accumulation out of the "normal profits of industry." *Op. cit.*, p. 260-1. In addition to "normal profits," surplus funds were acquired by the use of the bank deposits of the urban population, by taxation, and by inflation, though only a slight reliance on the latter was possible due to the extent to which previous inflation had occurred.

industry and agriculture. Until 1923, however, little attention had been paid by the Party to the matter of trade. By that time 80 per cent of the retail trade was in private hands and the proportion of wholesale trade (one of the "key positions") in private hands was rapidly increasing, though the syndicates of the trusts still had a major fraction of the latter. Considerable spreads between wholesale and retail prices had developed which had resulted in large fortunes accruing to the private traders or "Nepmen" in both the cities and the villages. Between 1923 and 1925 various policies looking toward the curtailment of private trade by administrative measures were adopted. But it was soon discovered that this action did not at the same time supply the means to take the place of the private traders.

Hence, in 1925 policies more in line with Lenin's "encircling capitalism" (his term, one might say, for the application of the theory of the concentration of capital) were adopted which led to practically all of the wholesale trade falling into State hands and also a large proportion of retail trade before the close of the NEP. On the one hand, the coöperative societies were granted liberal credits at low rates, privileges as regards taxation of their profits, and preferences in getting supplies from the trusts. Too, they were ordered to rationalize, lower costs and re-invest their profits. The private traders, on the other hand, although exempted from the more stringent of the administrative regulations referred to, were taxed heavily; and their ability to get credit and supplies was inferior to that of the coöperative societies. Briefly, the private traders were allowed to exist where, and as long as, they were needed. But as fast as the coöperatives were able to extend operations, the Nepmen were proletarianized by "competition which always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, partly vanish."[6]

Thus by 1927-1928 both State industry and trade had about "encircled capitalism" in the industrial sector, had learned from the capitalists to manufacture and to trade, and had more or less completed the urban basis for collectivism. At this time, in spite of the efforts of the Party (especially from 1924) to further Lenin's policy of "coöperative collectivism" in the village, the "capitalist elements" there seemed to threaten the future of Socialism, and even the future of large-scale industry itself. From 1921 to 1924 remnants of the State barter system of 1918-1920, in the shape of administrative barriers to the profit-seeking enterprise of the peasants, had remained in force. In 1924 these were removed to some extent with the view of stimulating the productivity of the "middle" peasants especially; and agricultural credit so-

[6] K. Marx, *Capital,* vol. 2, chap. 25.

cieties were formed to aid their production and that of the "poor" peasants.[7] These two classes of peasants were urged to do away with the strip system, to lessen the frequency of the re-distribution of their land, and to use collectively on a hire-purchase basis tractors imported by the State.

But by 1927-1928 it was clear that State industry could not obtain a sufficient surplus, or at least could not obtain it with sufficient dispatch, within the confines of Lenin's Smytchka, to provide a technological basis upon which to proletarianize the village. In fact, the surplus obtainable could only be acquired by offering the village better and better terms of trade, and this tended toward the stimulation rather than toward the displacement of the "capitalist elements" there. As previously mentioned, moreover, this surplus was at best just about enough to re-equip industry from current depreciation. The Kulaki (peasant proprietors) constituted in 1927-1928 the main source of food and raw material supplies. Due to the dividing of the landlords' estates into small holdings, the amount of land under cultivation for the market had decreased enormously, because the "poor" and "middle" peasants now consumed directly a far larger portion of the product which they produced. In 1928 grain production about reached the pre-war level, but State industry could obtain only half of the proportion that was normally brought to market before the war. Furthermore, of this half a fourth was marketed by the Kulaki, who under the terms of the NEP rented land, hired labor and were definitely increasing in power as "capitalist elements." They had learned to hold their produce off the markets and to benefit by selling at higher prices, thus worsening the terms of trade for State industry.[8] It was apparent that a termination of Lenin's Smytchka, the last important element of the NEP, would soon be necessary if collectivism was to be institutionalized in the village, since the surplus requisite for the introduction of the new technology and coöperative collectivism" was not procurable otherwise. In sum, the NEP resulted in the creation of a technological base for collectivism in the industrial sector, but in the village the situation was one of increasing strength of the "capitalist elements."

[7] Duranty describes "poor" peasants as those who have to borrow in order to survive between Easter and the next harvest, and "middle" peasants as those who do not have to borrow. The "Kulaki," the upper class in the village, are the peasant entrepreneurs and financiers.

[8] Farbman writes: "It had become quite evident that the production of grain for the market would be increasingly monopolized by this class. The rest of the 26 millions of cultivators were just able to feed themselves; and a crisis of the first magnitude had evidently arrived. Small-scale peasant cultivation on a poverty level of 2 to 4 hectares' holding stood condemned as a social and economic anachronism. It had to give way to some form of large-scale production." M. Farbman, *Russia's Five-Year Plan*, p. 129, N.Y., 1931.

It is now possible to discuss the second of the two periods with which this paper is concerned, that of the Piatiletkas from 1927-1928 to the present time, during which Stalin has been largely responsible for the policies adopted to achieve the classless State.

During 1927-1928 somewhat the same group who had previously opposed the maintenance of the Smytchka again argued that the solution of the problem of the surplus lay in resorting once more to requisitions and in dealing with the Kulaki by means of a "class war" in the village. Their demands at that time, in Stalin's view, were "premature and childish" because State industry was still dependent on maintaining the Smytchka.[9] A violent disturbance in the village might conceivably have resulted in famine areas in the industrial sections. At that time, however, a policy (a necessary prelude to the Piatiletka) was adopted whose logic is reminiscent of the theory of the concentration of capital. Several huge tracts of virgin soil were put under cultivation by means of State-supplied, large-scale equipment and workers drafted from industry with the definite "task" of providing in three or four years' time about as much grain annually as the Kulaki produced for the market in 1927. But, by 1929, the impetus given to these State farms and to a few others which had been in experimental operation previously had been great enough to bring State agricultural production up to a point that freed State industry from its dependence on the Kulaki. Also, the increase in the production of agricultural machinery between 1927 and 1929 was sufficient, in Stalin's view, to warrant a termination of the Smytchka and the relatively passive (evolutionary) methods of furthering "cooperative collectivism."

Therefore, it became possible in 1929 to employ revolution in place of evolution—that is to say, to apply Marxism in the fullest sense. The function of the policy adopted was to create one of *the* revolutions in history, the first agro-industrial revolution and the first revolution to be consciously planned and precipitated. The goal was to complete the foundation for the classless Socialist State. As Marxians, the drafters of the "Party line" held that to proletarianize the mentality of the peasants an industrial environment must be supplied in the village. The introduction of the new technology would destroy an institutional setting from which the Kulaki, representing "the capitalist elements," benefited, and hence it would be met by opposition from them. But as the poor and middle peasants came to realize the economic advantages

[9] Stalin later said, "An advance against the Kulaks was a serious undertaking. It should never be confused with declamation against the Kulaks or with scratching the Kulaks. But this is exactly what the Zinoviev-Trotsky Opposition was urging the Party to do. To advance against the Kulaks should mean to break up the Kulaks and to liquidate them as a class." Quoted by Farbman, *op. cit.*, p. 8.

to be derived from the acceptance of mechanization and collectivization, they would coöperate with the Bolsheviki in waging a class struggle which would rid the village of its bourgeois elements and habits of thought. The situation in the village would then allow of the growth of a mentality and institutions such as normally derive from the mechanized technology. In the Marxian view the "final" revolution in the U.S.S.R. would have occurred; and the basis, at least, of the classless State would then have been laid.

One cannot deny that there were other goals, such as increasing the productivity of agriculture, raising the "cultural level of the masses," and adding to the means of national defense. But these ends might have been attained by adopting the easier alternative of stimulating the productivity of the Kulaki and the middle peasants. To decide to mechanize agriculture and to proletarianize the middle and "exploited" poor peasants in spite of the historical evidence of the difficulty of applying an industrial technique in the "genetic" industries (husbandry in all its forms) indicates that the policy adopted was essentially applied historical materialism and not a policy of economic expediency.

To supply in Soviet Russia the *sine qua non*—the technology—for this policy required that the process outlined in the theory of the concentration of capital be "forced" at a rate unequalled in the history of capitalism. Here certainly, is substantial evidence that the Piatiletka (the Five-Year Plan of the policy) adopted in 1928-1929, provided a goal consisting of something other than the immediate satisfaction of human wants.[10] The industrial proletariat was informed that for at least five years, from a half to three-fourths of the national income was to be reinvested in the heavy industries and in industries supplying agricultural machinery, and that it would have to continue on short rations and at the same time increase its productivity as it had never done before. These proletarians were given the opportunity to "exploit" themselves so that capital might be concentrated, and their "surplus value" in the form of "accumulated labor" might permeate the village.[11] In this way, and in this way only, the Party chiefs believed, could the peasantry be precipitately and effectually proletarianized. As Stalin himself has said, "The basic task of the Five-Year Plan in transforming the U.S.S.R. into an industrial country was to eliminate completely all capitalist elements; to widen the front of socialist forms of economy and to create

[10] The first suggestion of a Plan or goal for common attainment in the U.S.S.R. is said to have been made by Lenin. "Planning" or consciously organizing the division of labor in a Socialist economy is, of course, inherent in a Marxist administration and it had to be undertaken almost from the beginning.

[11] I write "'exploit' themselves," as their accomplishment, discussed later, could not have been "forced."

the economic foundation for the abolition of classes in the U.S.S.R., for the creation of a socialist society."[12]

The basic estimates of the Piatiletka provided for the production of enough agricultural machinery (mostly of the horse-drawn variety) to mechanize 20 per cent of the cultivated area during the five-year period. But before two years had passed 60 per cent of the area had been collectivized by means of trenchant, class-struggle tactics against the Kulaki and by persuading the poor and middle peasants of the economic advantages to be gained.[13] In addition to this, it was discovered that the key to the technical problem of mechanization lay, not in supplying horse-drawn equipment, but in furnishing tractor energy over a wide area, radiating out from so-called "tractor stations." Thus there arose during the first half of the five-year period the necessity of not only greatly speeding up the production of agricultural implements, but the need of changing the equipment and output of the basic industries in order to supply tractors and tractor-drawn machines.

In spite of a heroic effort on the part of the industrial proletarians, the "expropriation of the expropriators" and the "proletarianization of the peasants" in the villages during 1928-1932 exceeded the ability of the industrial workers to supply the requisite technology as fast as it should (theoretically, at least) have been forthcoming to determine rigorously the character of the new environment. Also, collectivization undoubtedly proceeded much faster than it was possible to train efficient organizers and managers for taking over its direction. To overcome these "lags" and to complete the mechanization of agriculture will, it appears, be the function of the second Five-Year Plan. It need hardly be said that, since this agrarian revolution is still going on, a perspective is lacking which would admit of an attempt at verification of the putative gains and losses in the application of this Marxian hypothesis.

In stressing the application of Marxism in the village during the last five years, it has not been the intention to imply that the sole function of the Piatiletka was to proletarianize the peasants. In the industrial sector, the institutional and, to a degree, the ideological encumbrances of the *ancien régime* had been socialized, in form at least, by 1927-1928. But even here the process of impregnating the proletariat with the habits of thought and bases of judgment appropriate to the new institutional environment was still far from complete, and in the view of those re-

[12] Speech, Jan. 7, 1933, before Central Committee and Central Control Commission of the Communist Party, printed in Pravda, Jan. 10 and in New York *Times*, Jan. 29, p. xx, 3.

[13] For probably the most candid reporting (in English) of this struggle see the dispatches of Walter Duranty, New York *Times*. An edition of his dispatches since 1921 is being prepared for publication by the present writer.

sponsible for the "Party Line" required intensive cultivation and unremitting discipline.

The strategy of the first Plan was, accordingly, made conducive to this end, as far as possible. It consisted, broadly, of emphasizing the common task of "concentrating capital," of producing not consumption goods (beyond bare necessities), but capital goods which can only be consumed collectively and after a while. This strategy has resulted in an extreme scarcity of consumers' goods, which is an "economic factor" (using Marxian terminology) exercising a powerful and pervasive influence towards the proliferation of a group-regarding bias.[14] It may be noted, incidentally, that in primitive times this "factor" is endemic and ubiquitous and is unerringly reflected in the institutional framework of all primitive peoples. Where a deliberate attempt is being made to restore or reinvigorate the group-regarding bias, therefore, the advantage of a systematic deflection of productive energies into the creation of "capital equipment" is double-edged, it should be evident.

The fact that the misuse and breakage of machinery due to unskilled labor has run at a very high rate, both in industry and in agriculture, has not led to a slowing up of the investment in machines. In fact, in both fields, whether or not the projects in hand are immediately economical is, in the view of the Bolsheviki, quite beside the point. What is to be feared is not the principle of diminishing returns but the possibility of failing adequately to stimulate and institutionalize the group-regarding bias. The main question involved in the application of the first Plan in the industrial sector was consequently: Can the proletarians' spirit be sufficiently inoculated with what Veblen called the parental bent so that they will be led to coöperate with an eye single in the pursuit of a common end? To undertake the task of the concentration of capital and to precipitate another class struggle in 1928-1929, especially in view of the difficulty of obtaining a surplus, seemed to many close observers to border on folly. Yet, if the acquisition of the necessary surplus, its conversion into capital goods, and the maintenance of a sustained, even a strengthened, morale among the industrial workers, can be taken as an index, the answer to the above metaphorical question would seem to be that the inoculation "saved the life" of the patient.

[14] *Cf.* T. Veblen, *The Instinct of Workmanship*, p. 142, *et seq.* The prohibiting of handicraft industry and petty trade during the Piatiletka, Duranty writes, has greatly intensified the scarcity of consumers' goods. The Bolshevik economists erred in their estimation, he asserts, of the portion of the national income deriving from this handicraft industry and trade. On the other hand, it seems possible, at least, that in balancing the loss of these commodities as income against the gain in their absence as an environmental factor, the "line" may have been to adopt the latter alternative. In this connection there is a Russian proverb, "The hungry dog does not worry about fleas."

An intensive study of precisely how the surplus was acquired, of the specific incidence of the cost of mechanization, during the Piatiletka is not, to my knowledge, available in English. There is no doubt that, as Chamberlin writes, "Obeying the remorseless demands of its industrial Juggernaut, the Soviet government, up to recent months, has been taking from the peasants the whole of their surplus produce, with few exceptions, giving in return an inadequate amount of manufactured goods, because attention was predominantly centered on steel, metallurgical, machine-building . . . (and not on things) that could be eaten or worn."[15] On the other hand, in view of the low productivity of agricultural production—especially the inability of many peasant households to produce for the market at all—previously mentioned, it is probable that the main burden was borne by the industrial proletariat. The Piatiletka succeeded in arousing their imagination, enthusiasm, and consciousness of the need for increased productivity, and led them to accomplish a herculean task of cutting costs of production and increasing output, at the same time postponing consumption, to a degree that only men with such constitutions as survived the days from 1914 to 1921 could withstand.[16] The significance of their accomplishment is difficult to express. It may be gauged by another statement from Stalin's recent speech in January. "From an agrarian country," he said, "it has become an industrial country, for the ratio of industrial production to agricultural production had risen from 48 per cent at the beginning of the Five-Year Plan (1928) to 70 per cent at the end of the fourth year of the Five-Year Plan (1932).

"At the end of the fourth year of the Five-Year Plan we have succeeded in realizing 93.7 per cent of the program of general industrial production as conceived for the five years, having increased industrial production more than threefold in comparison with the pre-war level and more than twofold in comparison with 1928."[17]

This concentration of capital—mainly the production of the requisite instruments for a technological basis for collectivism in the village—supplied the agricultural sector during 1929-1930 with 42,000 tractors, of which only 30 per cent were manufactured in Russia. During 1931, some 70,000 were supplied, over one-half of which were of domestic origin. While in 1932, not less than 90,000, all made in Russia, were added to the equipment of the villages, in addition to other agricultural machinery, the production of which has, in general, kept pace with

[15] W. H. Chamberlin. *New Republic,* Feb. 15, 1933, p. 8, "Russia between Two Plans."

[16] These survivors are said to possess "high stomachs" and as Duranty has written, they have been "making bricks without straw" almost since the October Days, 1917.

[17] *Op. cit.,* footnote 11.

that of tractors. This "accumulated labor" of the industrial proletarians is permeating the countryside and making the peasants more and more of an interdependent proletariat at such a rate that in many sections today more than half of the costs of wheat when collected for shipment are attributable to it.[18]

In conclusion, the function or purpose of Lenin's NEP was to "reculer pour mieux sauter." The resuscitation of the former method of allocating resources, of organizing the division of labor and the restoration of the tendencies toward "concentration of capital," temporarily inhibited during the period of "war communism," contributed to the rebuilding of the technology in the industrial sector. But at the same time, as State industry and trade increased their productivity and proletarianized the free private enterprisers, the way was left open for the gradual building up of an environment suitable to the eventual realization of socialism. During the NEP period the Party was relatively unsuccessful in holding in check the "concentration of capital" by the Kulaki through the policy of the stimulation of "coöperative collectivism" and the control ("exploitation") of State industry. Therefore, in the agricultural sector, at least, during the NEP socialism was being "encircled" instead of capitalism. A technology had to enter the village which would "sharpen the class-struggle," precipitate the revolution, and become the substantive part of an environment which would foster collectivism. By 1929 the industrial sector was freed sufficiently from its dependence on the peasant proprietors by having "concentrated" doses of State capital on large-scale farms to make feasible the "liquidation of the Kulaki." The production of the requisite technological equipment since 1929 has lagged behind the political phases of the class-struggle in the village. However, the speed with which the machine technique—that proletarianizing octopus—is making peasant dependence on "accumulated labor" obligatory, warrants the conclusion that during the next five years an environment may be instituted in the village which will complete the foundation, according to the logic of Marx's historical materialism, of the classless Socialist State.

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[18] The topography of much of the land used for grain crops, being vast unbroken plains, is such as to lend itself to the use of large-scale machines. In fact on some of the state farms, much land is under cultivation and is said to be economical which would not admit of cultivation by means of small-scale methods. Data in terms of labor hours per bushel of Russian grain production are not at hand. The Bolsheviks, however, have no doubt of their ability to lower costs below the world level by means of large-scale technique. But if they fail to do so, it would not be surprising, *a priori*, for industry to subsidize agriculture so that a mechanized environment might be maintained, for a while at least. See Duranty dispatches, *supra*, footnote 13.

# SPECULATION AND THE GROWING INSTABILITY OF STOCK PRICES

The author is indebted to Professor W. L. Crum, who read this manuscript and offered many helpful suggestions.

There are circumstances under which the familiar reasoning regarding the stabilizing influence of speculation on commodity price variations does not hold. The broad generalizations of commonly accepted theory concerning the sensitive interactions of supply and demand as a price stabilizing force apply even less to securities than to commodities. Despite the increasing refinement of speculative facilities in general and the growing resort to short selling in particular, fluctuations in stock prices have become progressively greater over the period from 1872 to 1927. Arguments to the contrary fail to give full weight to the combination of factors tending in the opposite direction. Among the more important of these may be mentioned the growing participation of inexpert traders in stock market transactions; the added difficulty of appraising the true market valuations of the securities of concerns which have been in an increasing state of flux; and the possible relative lack of physical facilities for handling the huge volume of market transactions which have become an almost regular occurrence on the various stock exchanges. There are, to be sure, circumstances under which speculation or short selling may be said to exert a steadying influence on security price variations, but the value of the stabilizing force under such conditions is seriously to be questioned.

Recent governmental investigations of stock exchange practices have been largely concerned with the influence of short selling upon security prices.[1] This is merely another manifestation of those general discussions of the price structures of modern markets which have long centered upon the effect of speculation on prices. The subject matter of these inquiries is consequently not new. Indeed the president of the New York Stock Exchange justified short selling by resorting to the familiar reasoning that refinement of facilities for trading on organized markets leads to a nicer adjustment between supply and demand and results in smaller price fluctuations than would otherwise occur. Thus, the argument continued in substance, as security dealings become more highly centralized and the opportunities for speculation remain unrestricted, the response of buyers to the activities of sellers will be more certain and the variations of stock prices will tend to be confined within narrower limits. Short selling was held to be one aspect of speculation; and speculation together with investment were said to constitute the essence of an orderly market.[2]

While economists are largely in agreement that the influence of speculation on the organized produce markets is in the main to lessen price

[1] *Cf.* the Hearing before the Committee on the Judiciary, House of Representatives, Seventy-second Congress, First Session, serial 5, part 1, and Hearings before the Committee on Banking and Currency, United States Senate, Seventy-second Congress, First Session, part 1.

[2] Speculation in general and short selling in particular "by restraining inflation and cushioning sharp declines, tends to stabilize the fluctuations of prices." *Op. cit.*, Hearings before the Committee on Banking and Currency, p. 188.

variations,[3] the more cautious among them hold this sort of reasoning not applicable to stock exchange dealings.[4] And despite strong implications of the Stock Exchange president's testimony to the contrary, the present author's recent study[5] has demonstrated the growing instability of stock prices throughout the period 1872-1927, when the anticipated stabilizing influence of speculation and other market developments should have been progressively more active rather than less so.

But, that short selling by and of itself, like futures contracts in the produce markets, should under certain conditions tend to stabilize prices is patent to all. There is much to be said for the reasoning that the sale of securities not in the possession of the seller at a time of rising prices tends to dampen the upward movement and limit its height. Likewise, in a subsequent period of falling prices, the necessity for covering short commitments previously undertaken establishes a buying power which otherwise might be lacking and tends thereby to retard the movement of prices downward.[6] If these forces were to work themselves out regardless of interference from other factors, the probabilities are very strong that the superior facilities for bringing buyers and sellers together on the New York Stock Exchange and the increasing resort to short selling in more recent times would have been accompanied by fluctuations in stock prices of smaller magnitude in the later years of the period just referred to than in the earlier. But the facts of the investigation show an unmistakable tendency in the opposite direction. How account for it?

First, as to speculation in general. Discussions of speculation commonly lead one to expect stability of price in commodities dealt with on a large scale on the organized exchanges. The familiar reasoning is based upon diminishing utility and varying supply. It is argued that successive increments of supply can be disposed of only at progressively lower prices; but as price falls the quantity offered is checked and the demand becomes larger. Equilibrium ensues at a certain point and price is settled there. Varying prices are possible, to be sure, but only under new conditions of supply and demand, and the smooth working of these sensitive interacting forces is supposed to keep fluctuations within relatively narrow bounds. But even as respects commodities, conditions may

[3] See, for example, J. S. Mill, *Principles of Political Economy,* Book IV, ch. 2, secs. 4 and 5; Alfred Marshall, *Principles of Economics,* Book V, ch. 1; and F. W. Taussig, *Principles of Economics,* Vol. I, ch. 11. *Cf.* H. C. Emery, *Speculation on the Stock and Produce Exchanges of the United States;* and A. P. Usher, "The Influence of Speculative Marketing upon Prices," *American Economic Review,* March, 1916, pp. 49-60.

[4] *Ibid.,* Taussig (3rd rev. ed), p. 164, for example.

[5] *Quarterly Journal of Economics,* February, 1933, pp. 357-367.

[6] These are ideal conditions, of course; other possibilities are discussed later.

appear which are not in accord with such broad generalizations of accepted theory.[7]

A lower price very often leads not to increased demand but to an actual decrease in the quantity of a commodity that can be disposed of in a market. Neither does it necessarily reduce the supply of goods that will be offered for sale there; it may actually serve to augment it. The consequence is that within certain limits a fall in price, far from tempting people to buy more and thereby setting up its own remedy, may lead sellers to fear a demoralized market, induce further offerings, and intensify the decline. An important practical instance of such an experience comes readily to mind. The shoe manufacturers in the depression of 1920-21 learned to their dismay that successive reductions in the price of their products brought forth not new purchasers of shoes but actually strengthened the psychology responsible for the so-called "buyers' strike" of that period and caused sales to fall off. Only after the futility of further price shading was recognized and appeal was made on the basis of changing styles did increased business result and accumulated stocks diminish.

It is just such a course of events that bears rely on when they sell commodities short on the various exchanges. Under circumstances favorable to it—when there is considerable uncertainty as to the future—a timely raid upon prices will not tempt others to buy, but frighten them to sell, and material price recessions can be accomplished with relatively small offerings. At such times, the chances are overwhelmingly against a price decline checking itself by leading to more purchases. Rather it will intensify itself by curtailing demand and hastening further sales.

This sort of reasoning is peculiarly applicable to securities dealt with on the various stock exchanges. For these even less than for commodities does the quasi-automatic adjustment of the supposed speculative influence lead to stability of prices. Vague rumors, the activities of particularly outstanding individuals with "inside" information, guesses as to the "technical" position of the market, and even the deliberate dissemination of false information probably are of more effect on the stock exchanges than on the produce markets. This is due in part to the fact that most security speculators are in the main probably less well-informed than are participants in the various commodity exchanges, where on the whole a greater degree of technical knowledge concerning the products bought and sold is required. In part also it is due to the related fact that the so-called public has been "educated" to take a "flyer" in the stock market, whereas the relatively less well advertised produce exchanges have probably attracted fewer of those with the

[7] For an admirable discussion of this subject the reader is referred to Professor Taussig's article in the *Quarterly Journal of Economics*, May, 1921, pp. 394-411.

pure gambling spirit. Finally, as Professor Taussig points out,[8] the factor of utility which sets more or less definite limits on the price fluctuations of various commodities operates not at all (except in a far-fetched sense) on securities. For them the expectation of earning power of the properties serves a similar purpose, but the uncertainty of this limiting force detracts considerably from its effectiveness. The result is a degree of possible variations materially greater than in the case of commodity prices.

So much in explanation of the failure of speculation to stabilize prices in a given situation at a particular time. Notwithstanding the existence of a strong speculative market, it is clear that price fluctuations of varying magnitude remain a fact. But another matter is that of relative fluctuations at different times. It is entirely probable, despite the reasoning about zones of indeterminate prices in which large fluctuations are possible at a particular instant, that variations will be minimized with the operation of positive stabilizing influences between different times. This is not contradictory. Experience has amply demonstrated the truth of what has been said regarding the penumbra. But the width of this zone of uncertainty, though it need not disappear, may yet be narrowed from one period to another by such factors as the perfection of trading facilities or possibly by the creation of superior opportunities for the use of the futures contract. Granting the validity of the foregoing argument, it remains to ascertain why the sundry stabilizing forces in operation over the long period of years in question have not worked out their anticipated effect. This is the point of special interest in the present study.

It will prove convenient to divide the years 1872-1927 into three periods: 1872-1896; 1897-1914; and 1915-1927. Consider first what has been termed the formative period in American stock exchange history.[9] Few will dispute the relative lack of refined arrangements for bringing buyers and sellers together on the New York market during the first of our three chosen intervals of time. If the absence of the various mechanical aids for communicating information and otherwise facilitating trading during these years did in fact militate against the smooth adjustment of the demand for and supply of securities, it is to be expected that price fluctuations to that extent should be larger in this period than in the others. It is, of course, easy to exaggerate the importance of such aids, but the superior organization of the more modern market must have played some part in effecting sales with less difficulty and therefore probably with less variation. Unfortunately, owing to the paucity of information available, much in the conclusions con-

[8] *Op. cit.*, p. 406.

[9] *Quarterly Journal of Economics*, Feb., 1933, pp. 359-360.

cerning this earlier period must be in the nature of conjecture. But a pretty safe guess can be made. While the speculative influence was in some degree active in prices in these years, the highly developed facilities for short selling were lacking; and it is tolerably certain that this factor was less in operation in the earlier periods than in the later. Why, then, do the figures show that greater stability was not actually achieved in the later period?

The fundamental presumption of economic reasoning concerning the stabilizing influence of speculation on the organized exchanges is based upon the existence of wide markets, active competition, full information, and traders skilled in utilizing that information. The more such market transactions are confined to shrewd and experienced dealers, the more likely it is that price variations will be minimized. Some fluctuations are of course always to be expected. But the general effect of speculation should be to lessen fluctuations.

Reference has already been made to the part played by relatively inexpert buyers and sellers in extending the zone in which price determination is a comparatively uncertain matter and therefore giving rise to variations greater than would otherwise occur. There should be no difficulty in understanding why the activities of such traders should have that effect. Every period of active speculation brings them into bold relief. Lacking the fundamental information (and often the ability to interpret the information) upon which to base their calculations regarding the true market conditions, they inevitably bid a price higher or lower than the facts warrant and make possible a degree of variation considerably greater than would take place if trading was confined to the more experienced. It is obvious, if there are grounds for believing the participation of these people in security market transactions to have increased with the passage of time, that price fluctuations, so far as this factor alone is concerned, should be greater in the later periods than in the earlier.

There are such grounds, though the evidence may perhaps be not entirely conclusive. Recent monographic studies[10] have emphasized the large increase in the number of book stockholders in American corporations since 1900. Though little information is available concerning the actual number of individuals who own stocks and it is therefore impossible definitely to indicate their increase, it is fair to conclude that the large growth in book stockholders must have involved a considerable ad-

[10] See especially, H. T. Warshow, "The Distribution of Corporate Ownership in the United States," *Quarterly Journal of Economics*, Nov., 1924, p. 15; and G. C. Means, "The Diffusion of Stock Ownership in the United States," *Quarterly Journal of Economics*, Aug., 1930, p. 561.

dition to the number of individual owners. There are other reasons for believing this to be the case. Only a few will be discussed.

Without entering into the elaborate analysis of Means to prove this in the study already referred to, it is sufficient for our purposes merely to indicate that the period since 1900 witnessed an important development in industrial campaigns to sell stocks to employees and customers. Unquestionably this must have increased public participation in the security markets—not so much perhaps from the fact that these people resorted to the exchanges to effect sales of stocks bought or to make additional purchases of the same securities, but more from being initiated into the novel experience of share ownership. The huge governmental financing of these years had a similar result. All this was particularly true since the war. Is it difficult to imagine that the successive post-war stock market booms with their rapidly mounting paper profits must have attracted an increasing number of these new "capitalists"? Though not ordinarily the most trustworthy source, there would appear to be this time a sound basis in fact for the repeated statements of the popular press in recent years that the "public" was in the market on a large scale.

For the most part the proof just adduced applies more to our 1915-1927 period than to the years from 1897 to 1914. But the two investigations just referred to leave little doubt of a like development, though obviously not so impressive, since 1900. The movement in this direction received its first real impetus in 1897. Beginning in that year a phenomenal trade activity set in after the long depression following the crisis of 1893. Accompanying this revival was a great outburst of corporate promotions which gathered momentum and reached the proportions of a speculative craze before it finally collapsed. As almost always happens under such conditions, every conceivable form of enterprise was brought forward as offering favorable opportunities for investment. But none was more successful in attracting a public following than the various projects for combining industries on an ever-expanding scale. The people had the money and apparently were eager to use it; and the virus of immense industrial units rapidly infected the entire community.[11] In many respects this period resembles the speculative mania which terminated so disastrously in the autumn of 1929. Then, as in the later period, all normal standards of value were discarded: "—the country seemed to have reached a pinnacle of prosperity from which nothing could dislodge it. The profits of our incorporated enterprises seemed to

[11] Some informative statistics of new capital flotations during the early years of this period are given by Luther Conant in the publications of the American Statistical Association, 1901, Vol. 7, p. 212 *et seq.*, and in John Moody, *The Truth about the Trusts*, pp. 453-467.

have no assignable limit. American capital pressed upon every avenue of investment. The most reckless and foolish speculation was apt to achieve success."[12] A less important but in some ways a more conclusive bit of evidence that public participation was growing in both periods is available in the fact that New York brokerage houses found it profitable to cater to the increasing women's trade by opening rooms exclusively for their use.

Perhaps an apology is due for consuming so much space in laboring what is perhaps after all an obvious point. But it has seemed necessary to explain in detail the rôle played by the growing numbers of inexpert traders in increasing security price fluctuations over the period of years in question. It is considered an important part of the explanation of the seemingly contradictory results obtained from the statistical analysis. Of course the participation of the less well-informed must have had some influence in the earliest of our intervals, but it is not thought that the degree of that influence was as great as in the later years.

It is possible that the measure of security fluctuations employed in the previously mentioned investigation may not be sufficiently representative of the market as a whole to afford conclusive proof that price variations have in fact been greater from one period to another.[13] If that is indeed so, it might well be that a superior index would show greater stability actually to have occurred. But granting the index to be satisfactory in that respect, there is yet another possibility that the extraordinary fluctuations of a comparatively few relatively unimportant stocks would be sufficient to outweigh the speculative influence of stability on the many and yield the results obtained.[14] That would be so in part if the number of so-called "cats and dogs" increased over the years in question. More important but less obvious is the effect which the supposed stabilizing influence of such technical refinements as improved facilities for disseminating information, for example, would tend to have. For, given a group of securities which have good reason to fluctu-

[12] A. D. Noyes, "The Recent Economic History of the United States," *Quarterly Journal of Economics*, Feb., 1905, p. 196.

[13] Unquestionably a more representative index could be constructed, but it is doubtful if it could be carried back to 1872 without the necessity for employing so many statistical makeshifts as largely to destroy its value. This would almost certainly be true of the earliest period under review. Furthermore, the time and labor involved would be all but prohibitive.

Notice should also be taken of the fact that substitutions in the Dow, Jones list of securities impaired to a certain extent the comparability of the averages for earlier and later years.

[14] It should be noted, however, that the Dow, Jones index, which was largely relied upon in that study, was during those years computed by the use of arithmetic averages of actual prices. Upon such averages a given percentage change in the quotations of stocks selling at high prices has a much greater effect than an equal percentage change in the quotations of stocks selling at low prices.

ate, full and prompt information concerning them, and the existence of a highly organized exchange for trading in them, will serve to intensify the variations, just as the same refinements should tend to equalize the market when the facts warrant such equalization.

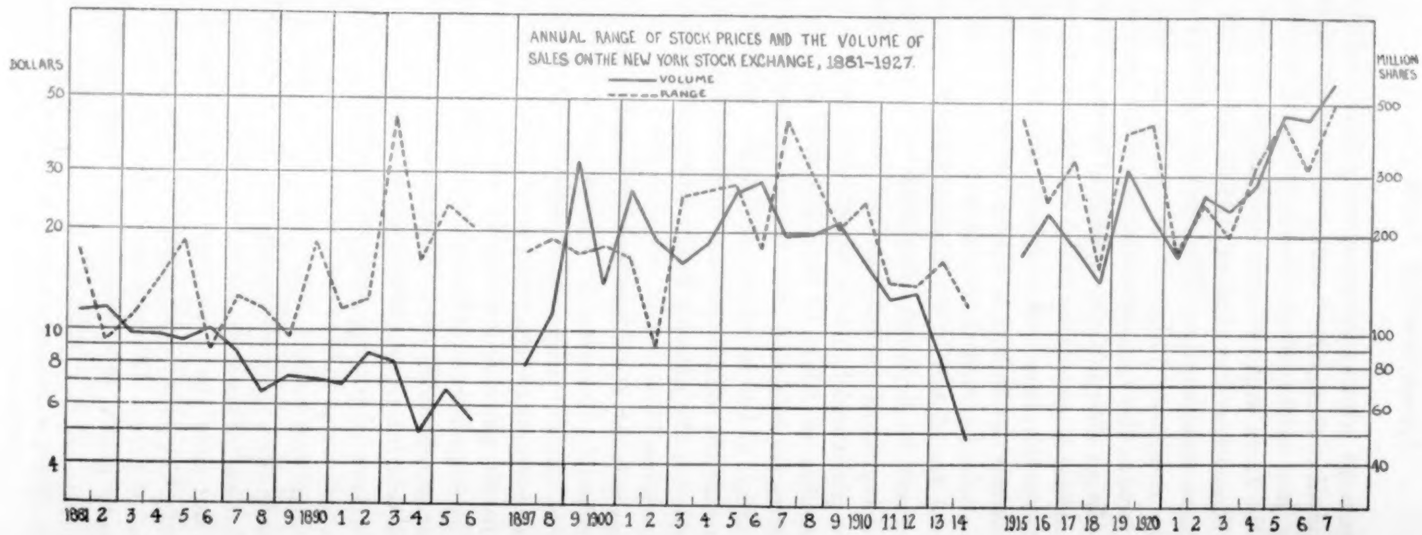
There is still another somewhat related aspect of this matter which deserves attentive consideration. Stock prices are after all merely the product of the composite judgment of speculators who appraise, or attempt to appraise, the value of securities on the basis of all available information. Always difficult, such appraisal becomes more so when the industrial structure is geared up to an ever-increasing rate of change and speed. That acceleration and structural change have been immensely important economic developments during the years covered by this investigation is shown by such studies as *Recent Economic Changes* conducted earlier by David A. Wells and latterly by the National Bureau of Economic Research. In view of the magnitude of these industrial changes, it is not surprising that even well-informed analysts should differ widely concerning the given and future prospects of American enterprise and how such prospects are likely to be reflected in security prices. There are good reasons for believing that this industrial pace has been constantly increasing, and it is submitted that the resulting greater difficulty of evaluating the securities of our corporations has been in part at least responsible for the growing fluctuations of security prices during the years in question.

Not only has industry itself been accelerating but the pace of trading has been considerably increased. It was not until very late in our first period that the volume of daily sales exceeded 1,000,000 shares, and even then such a turnover was exceptional rather than the rule. This is to be contrasted with the growing activity following the turn of the present century and the huge volume of transactions which has become almost a regular occurrence since the war. Apparently it is not the rapidity of turnover itself which increases the range of security price fluctuations but rather the type of trading involved which has that effect. The accompanying chart seems to bear out this statement.

As a matter of fact prior to 1917 the gap between annual high and low quotations is much more often narrowed than widened by the increasing volume of sales.[15] This is the sort of relationship which is normally to be expected. But since that date there is seen to be, with only one exception, a perfect contrary correspondence between speculative activity and the spread of prices. This requires explanation.

Even a hasty glance at the upper and lower portions of a graph

[15] *Cf.* the conclusions of W. C. Mitchell in his article entitled, "A Critique of Index Numbers of the Prices of Stocks," *Journal of Political Economy*, July, 1916, pp. 682-3, note 3.


ANNUAL RANGE OF STOCK PRICES AND THE VOLUME OF SALES ON THE NEW YORK STOCK EXCHANGE, 1881-1927.
VOLUME
RANGE
DOLLARS
50
30
20
10
8
6
4
MILLION SHARES
500
300
200
100
80
60
40
1881 2 3 4 5 6 7 8 9 1890 1 2 3 4 5 6
1897 8 9 1900 1 2 3 4 5 6 7 8 9 1910 11 12 13 14
1915 16 17 18 19 1920 1 2 3 4 5 6 7

depicting high and low stock prices over the years here in question will show that ordinarily these two curves move together. Of course there is always pulling and hauling both ways, but usually both sides of the market are likely to move together without inordinately large divergence. On occasions, however, especially at the peaks, and to a less extent at the troughs, of the speculative cycles extraordinary differences of opinion develop, and the range becomes wider. There are, of course, at all times different groups of forces in operation: some work toward the stability of prices; others exert their influence in the opposite direction. Whichever is the more powerful in any period gives a greater or a smaller range, as the case may be. Aside from the explanation already given, the situation described in the preceding paragraph relating to the last interval under review can be accounted for partly on the basis of the existence of facts and conditions so ambiguous and difficult to interpret as to cause prices to move violently in opposite directions. Partly also the explanation is to be found in the probability that the superior organization of the market was not sufficient to meet the increased difficulties that were created by the immense volume of securities traded during this latter period.

Concern to this point has been with speculation in general. Attention is now directed to that particular aspect of speculation known as short selling. That short selling was more actively and more widely engaged in since 1916 than before is almost certain.[16] If that is so, the statements of the New York Stock Exchange president would lead us to suppose that the influence of this factor should have caused security quotations to vary less in the latter period than in either of the former intervals.

There can be no question that under certain conditions short selling does tend to stabilize price fluctuations. During the upward phase of the speculative cycle, when the demand for securities apparently exceeds the supply and quotations are generally rising, additions to the supply of stocks made available on the exchange through the medium of the short sale tends to that extent to dampen the bull movement and keep prices from going as high as they otherwise would. Similarly when the market is declining, the covering of short commitments previously made will, so far as this particular transaction is concerned, introduce a buying power which otherwise might be lacking and serve to retard the tendency of prices downward. To the extent that these situations obtain, therefore, the peaks and valleys will be more or less ironed out. But this sort of reasoning rests on assumptions of ideal conditions. Other factors which might conceivably set in motion a movement in the opposite direction are obviously disregarded. Furthermore, and it is essential to keep this con-

[16] The grounds for this belief are set forth in a paper which the author hopes shortly to publish.

stantly in mind, nothing more can be claimed for these transactions than that at a *particular* moment of time a specific purchase or sale such as described above will, in the absence of intervening forces, have the effect indicated.

But not all short selling and its subsequent covering takes place under such ideal conditions. People who engage in these activities are of course not concerned with stabilizing stock prices; it is to their interest to sell at the highest possible point and to complete their contracts at the lowest. In so far as they are entirely successful in achieving their goal the stabilizing influence of their transactions obviously disappears. But this assumes a degree of perfection in such operations which is even less likely to occur than the situation described in the last paragraph. What undoubtedly does happen is that some short lines are put out when the market is going up and some when it has definitely turned the corner. Similarly with regard to the replacement of these commitments: some covering takes place while the decline is still in progress; some when it has run its course and a minor or major upward movement has already set in. This being so, the conclusion is unavoidable that the effect of some short selling is not to lessen variations but actually to increase them.

We need only revert to our discussion of the penumbra to indicate how this may work out. Given a declining market in its early stages, especially if the preceding upward movement has been accompanied by speculative excesses and the outlook for the future is uncertain, a relatively light volume of spectacular selling for short account will almost certainly demoralize the market. At such times, falling prices will not attract new buyers, but rather hasten further sales, with the consequence that the range of fluctuations will be considerably increased. Once begun, such a movement gathers momentum, so that subsequent declines can be engineered with surprising ease. It is extremely significant that the New York Stock Exchange authorities have in substance recognized just such a possibility in the ruling which forbids the negotiation of short contracts except at a price not less than the last preceding sale. Of course any covering of these short commitments in a subsequent period of declining prices tends to retard that particular downward movement, and can be said to that extent to constitute a stabilizing influence. If, however, the contracts are completed when the market is rising, quotations will be forced higher than they otherwise would go and again the result is greater instability. A short sale under these circumstances, by and of itself, similarly lessens fluctuations. But in either case the value of such stabilizing forces is of an extremely doubtful order.

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# FRENCH IMPORT QUOTAS

An import quota system has been one of the devices for trade control in frequent use since the world depression. A study of the French experience which covers a period of two years is illustrative of the problems arising from the imposition of such a system, the purposes for which it can be used, its relation to commercial treaties as well as the administrative technique. Though import quotas are a hindrance to the free flow of international trade, there is the question whether they are not an instrument of economic control which may be of value in economic planning. France introduced the system as an emergency measure but there is evidence that she is beginning to look upon it as a permanent part of her commercial policy.

France has now had two years' experience with her import quota system, described by M. Tardieu at its inception as a form of "directed economy." Though the Ministers of Commerce, who have come and gone during the interval (Louis Rollin, Julien Durand, Louis Serre) have consistently maintained that such a system was by its nature an emergency measure, it is important to evaluate it as a type of trade control which may prove peculiarly adapted to the changed status of world trade. Although France is not alone in the use of this instrument of commercial policy,[1] her dominating position and the wide application of her import quotas make her experience significant.

Although the term is used with various connotations, an import quota may be defined for the purpose of this study as the limitation by quantity or by value of imports of a commodity for a specified period of time by executive decree. Reasons for the adoption of such a system include: (1) a growing unfavorable balance of trade not compensated for by invisible items; (2) an increase of imports from countries with inflated currencies; (3) imports from countries with subsidized industries; (4) an increase of imports caused by dumping in any of its multifarious forms; (5) need of foreign exchange for debt services or the purchase of war supplies; and (6) reduction of domestic consumption resulting in a contraction of the domestic market. Whenever in the past import quotas have been used, they have been considered only as temporary devices either in economic exigency or in war, and they have been applied to protect specific commodities or to ration purchases rather than as a general policy.

### *The Introduction of the Import Quotas*

France has been accustomed to an unfavorable balance of trade for many years[2] which has been generously compensated for by her flourish-

[1] In 1932 all but three European countries, Bulgaria, Denmark and Spain, if wheat limitations are disregarded, had resorted to import licenses or import quota systems. U. S. Department of Commerce, Trade Information Bulletin, no. 812, 1933, p. 3.

[2] Pierre Meynial, "La Balance des Comptes," *Revue d'Economie Politique,* May-June, 1932, p. 591, and League of Nations, *Balances of Payments 1930* (1932), pp. 82-

ing tourist traffic, shipping and the services of her foreign debtors. When during 1931 her excess of imports in francs remained for several months above one billion francs, reaching 36 per cent of imports in June,[3] the government became alarmed. At that time French prices were 53 per cent above prices of imported goods and the gap between the two series was widening.[4] While during 1930 imports of manufactured goods had taken advantage of the situation, increasing 16 per cent, during 1931 the monthly average of food imports increased 61 per cent in July as compared with July, 1930. Thus France was becoming the happy hunting ground for exporters of other countries, to which according to her Minister of Commerce "merchandise to be placed flowed from all parts." Additional danger signals warning her that she was being drawn into the economic maelstrom included rising unemployment, budget difficulties and the decline in her tourist trade.

According to Article 3 of the French Tariff law of 1910 (Cod. Art. 17), the government is endowed with the right and duty to introduce emergency measures to combat any action of foreign governments which

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84. In 1924 and 1927 due to unusual conditions France had a small favorable balance of trade.

[3] Trade figures, published by l'Administration des Douanes are as follows:

VALUE OF FRENCH FOREIGN TRADE BY MONTHS
(In thousands of francs)

| | | Imports | Exports | Trade balance | Per cent of imports |
|---|---|---|---|---|---|
| 1930 | September | 4,225,050 | 3,360,507 | — 864,543 | 20 |
| | October | 4,518,409 | 3,492,872 | —1,025,537 | 23 |
| | November | 4,265,487 | 3,431,365 | — 834,122 | 20 |
| | December | 4,511,135 | 3,241,612 | —1,269,523 | 28 |
| 1931 | January | 3,786,121 | 2,571,464 | —1,214,657 | 32 |
| | February | 4,081,844 | 2,755,996 | —1,325,848 | 32 |
| | March | 3,939,254 | 2,066,769 | — 872,485 | 22 |
| | April | 3,903,697 | 2,876,097 | —1,028,600 | 26 |
| | May | 3,570,851 | 2,432,770 | —1,396,778 | 32 |
| | June | 3,916,989 | 2,520,211 | —1,216,553 | 36 |
| | July | 3,634,830 | 2,418,277 | —1,216,553 | 33 |
| | August | 3,187,730 | 2,310,111 | — 877,619 | 28 |
| | September | 3,348,609 | 2,434,668 | — 913,941 | 27 |
| | October | 3,128,299 | 2,534,630 | — 593,669 | 19 |
| | November | 2,890,990 | 2,385,081 | — 505,909 | 17 |
| | December | 2,806,476 | 2,096,494 | — 709,982 | 25 |

[4] *Bulletin de la Statistique Générale de la France*, vol. 20, p. 1, 1930-31, and vol. 21, p. 1, 1931-32:

| | July 1930 | July 1931 | Per cent decline | |
|---|---|---|---|---|
| National products (29 articles) | 598 | 532 | —11 | 100—1914 |
| Imported products (16 articles) | 461 | 347 | —25 | |
| Difference | 137 | 185 | | |

may hinder French trade.[5] The adoption of foreign exchange controls by a large percentage of the countries of Europe and South America, the Kredit-Anstalt affair, the desertion of the gold standard by Great Britain and the Scandinavian countries, followed by the abandonment of free trade in her best market, England, indicated that such a period of crisis was at hand; and the government acted accordingly. An increase in import duties as a single measure was considered inadequate for several reasons. France had lost what M. Durand called her "tariff liberty" by consolidating 72 per cent of her customs tariffs in commercial treaties[6] and could not alter them without long delay and the risk of diplomatic discord. In the second place, it was felt that the low prices in foreign countries as compared to France[7] and the practice of some foreign countries of granting export bounties falsified the normal play of the customs mechanism and required a tariff wall fantastically high to be effective. And, lastly, it was argued, whether rightly or not, that tariffs would have a greater tendency to increase prices on imported goods and further accentuate the price situation. As more immediate and effective, the Laval government turned to import quotas as an emergency measure.[8]

[5] Edgard Allix, professeur de science financière à la faculté de droit de Paris, claims that the government has exceeded its power and that its procedure is illegal in issuing import quota decrees. His contention is based on two points: first, that the text of the 1910 law *"par preterition"* seems to cancel the right which the government had under article 8 of the law of 1892 to decree prohibitions and that in any case this special power is limited to measures of reprisals only. *Les Droits de Douane,* 1932, vol. 1, p. xvi, 271-272.

[6] Since then France has undertaken a revision of her commercial policy, and has abrogated or amended her commercial treaties with Italy, Germany, Canada, Turkey and Estonia in order to deconsolidate her customs rates. In the case of the treaty with Germany which contained the most important consolidated list, the treaty was amended to restore freedom to increase rates on an extensive list on fifteen days' notice. *Commerce Reports,* January 17, 1933, and *La Journée Industrielle,* November 27, 1932.

[7] (a) Commodity price indexes for selected countries for 1931 were as follows:

1926—100

| | | | |
|---|---|---|---|
| United States | 73.0 | Germany | 81.9 |
| Austria | 66.6 | Italy | 73.1 |
| Belgium | 71.9 | Netherlands | 67.0 |
| Denmark | 66.5 | Poland | 78.9 |
| France | 86.9 | United Kingdom | 65.5 |

*Commerce Reports,* April 15, 1933.

(b) Price indexes for 29 articles of French production as compared to price indexes for 16 selected imports for the first six months of 1931 were as follows:

1914—100

| | | | | | | |
|---|---|---|---|---|---|---|
| National products (29 art.) | 567 | 557 | 560 | 566 | 552 | 539 |
| Imported products (16 art.) | 364 | 375 | 370 | 365 | 350 | 365 |

*Annuaire Statistique,* 1931 (1932), p. 206.

[8] *Journal Officiel,* August, 1931, p. 1472.

The following quotation from a letter of M. Duchemin, president of the powerful *Confédération Général de la Production Française* to the editor of the *Journal de Debats* is illustrative of the prevailing French point of view at that time:

> . . . We are headed straight toward a total standstill in our foreign trade, to a general stoppage as it were, without being able to foresee the end.
> To produce this stoppage voluntarily with the object of re-establishing order rapidly where disorder reigns and of stimulating the revival of consumption seems to us less perilous.
> Indeed, the adoption of a quota system will give again to our producers in large measure the assurance of maintaining the domestic market, and while we possess the important foreign exchange it will make it possible for us to regain our contractual liberty and to negotiate new and advantageous commercial treaties.
> On two conditions, however. On the one hand it is necessary to keep the point of view that an all inclusive import quota system should only be an emergency measure, while on the other hand every consolidation of new duties must be prohibited in order to conserve the possibility of modifying our tariff régime in accordance with events and with the new equilibrium which will follow the crisis.[9]

During the post-war years France had used a license system to protect a few commodities such as motion-picture films and wheat.[10] A somewhat similar scheme was applied to nitrate fertilizers by a decree of May 5, 1931, though no specific quantities were designated, to mineral combustibles by a decree of July 10 and to flax by a law of July 11. The quota system proper (the specific quantity limitation of imports by government decree) commenced in August with the lumber and wine quotas. In the edicts announcing them, it was stated that in the case of timber, foreign imports within the year had increased 50 per cent with the result that prices had dropped from 390 francs per cubic meter to 255 francs and the livelihood of 700,000 workers was threatened; while in the case of wines, the principal resource of several *departements* was endangered.[11]

Beginning with October, 1931, the decrees followed in fairly quick succession and by July, 1932, the quota system had been extended to 1,133 items of the tariff code or about one-seventh of the tariff schedules. Until January, 1932, they included chiefly agricultural products; but

[9] *Journal de Debats,* November 26, 1931.

[10] The wheat law was promulgated December 1, 1929, and empowered the Ministry of Agriculture to fix and establish the maximum percentage of foreign wheat destined for the manufacture of flour. This percentage is highly variable and changes in it are announced in the *Journal Officiel.*

[11] *Journal Officiel,* August, 1931, p. 9472. At this time customs duties on wines were consolidated in the Franco-Italian Accord of May 7, 1928, and the duties on wood were consolidated in accords with Czechoslovakia and Esthonia. Meanwhile the lumber which was flooding the market was coming from Poland, Germany and the U.S.S.R.

with the opening of the new year (1932) they were extended rapidly to manufactured products in order to

> . . . re-establish the balance between the two great branches of production by according certain complimentary favors to industry which because of the difficulty of lowering costs of production, is having a hard struggle against its (foreign) competitors. . . .[12]

A study of the following list which includes only large classifications, shows a wide range of commodities, shared about equally by the agricultural, raw material and manufacturing industries, as well as by both producers' and consumers' goods. All are either produced in France or are competitive with French substitutes:

| | | |
|---|---|---|
| 1931 | July | Coal. |
| | August | Wines, lumber and lumber products. |
| | September | Livestock, fresh and preserved meats, milk and milk products. |
| | October | Fish. |
| | November | Live and dead poultry, eggs, rabbits, bentwood furniture, sorghum brooms, fresh cut flowers. |
| | December | Sugar, preserved fish, bananas. |
| 1932 | January | Toys, scythes and sickles, manure forks, flat iron and steel sheets, radios and radio parts, electrical equipment and appliances, vacuum cleaners, enameled household articles. |
| | February | Canned peas, string beans and carrots, leathers, canned fish. |
| | March | Hardware, wooden furniture, automobile body sheets, electrical sheets, machine tools, printing machines, certain tools, measuring instruments, strip steel, storage batteries, electric insulators, certain glassware, umbrella frames, twines or glazed yarns, certain apparel and textiles, certain papers and cardboards, cigarette lighters, iron and steel blooms, bars and billets, hot-rolled hoop iron and steel, sulphuric acid, mercury, hammered gold in leaves. |
| | April | Stoves and heaters, cotton and artificial silk hosiery, felt hats, glue. |
| | May | Knitting and hosiery machinery, optical goods and scientific instruments, pipe fittings, motion picture positives, builders' hardware, iodine. |

[12] *L'Européen*, May 27, 1932.

| | | |
|---|---|---|
| | June | Fountain pens and automatic pencils, footwear, silver and gilt jewelery, plate glass, window glass, cast glass, resinous products and spirits of turpentine. |
| | July | Fresh fruits. |
| | November | Coffee (temporary, pending enactment of new duties). |
| 1933 | March | (Temporary quotas on 59 items, pending enactment of increased duties after deconsolidation of rates in Franco-German Commercial Treaty.)[13] |
| | April | Honey and substitutes. |

### *Method of Determining Import Quotas*

The underlying theory of import quotas is simple: If the total normal domestic consumption equals A and total domestic production equals B, the quantity necessary to import equals A minus B, the difference being the correct amount for the import quota. In practice, however, the complications are many and the promulgation of a quota decree involves numerous and difficult decisions by executive authorities, such as: (1) What shall be the base year or group of years for the estimation of the quota? (2) What shall be the length of the quota period? (3) Shall the same period of the base year or years be taken as the period for which the quota is to be applied, or shall the total base year be used? (4) Shall the quota period be subdivided in order to regulate the flow of commodities, as for instance in the case of perishable products? (5) Shall the quota period be retroactive? (6) Shall there be provision for excess quantities? (7) Shall there be a single quota or shall quotas be allocated to different countries? (8) Shall there be definite allocations for specific commodities within the quota, *i.e.*, for apples and pears in the fruit quota? (9) Shall licenses be used?

The French have seemed to employ all possible variations. The length of the quota period has varied from one month to a year with three months as the most usual period. It involves less administration than monthly quotas and offers greater certainty to foreign exporters, while, on the other hand, it gives more flexibility in meeting changing economic conditions than annual quotas. Where it is necessary, quarterly quotas are subdivided into monthly and weekly allotments for perishable commodities. The first quotas were nearly all retroactive, a feature which caused bitter complaint among the foreign exporters, but which has tended to be eliminated with renewals. Renewals, however, are usually reduced when the quotas for the previous quarter have been exceeded, a situation which is permitted to arise when commodities are in transit

[13] See *Journal Officiel, seriatim.* In general the tariff classifications have been used.

at the time when the quota is announced as exhausted. The policy is to allow such goods to enter and to be applied to the quota for the next quarter. In most cases the quotas have been exhausted within a few weeks.

The choice of the base year or years has been one of the controversial questions, since it affects the distribution of the quota allotments between countries, rather than the amount of the quota as often erroneously supposed.[14] Theoretically a year or group of years of "normal imports" is chosen as the base period and the quota is fixed as a percentage of the average imports of that period. When allotments are made, each country is given the same percentage of the quota as its imports were of total imports for the base period. But years of so-called normal imports may not coincide with recent trends in the distribution of the import trade which is influenced by changing costs of production in the different exporting countries, technical advances or variations in the price levels. Whether or not the choice of the base year has been influenced by favoritism, as it has been intimated,[15] there has been a considerable variance, *i.e.*, the first quotas on lumber and wines were estimated on average imports from 1925-1929, those for steel sheets, scythes and pitchforks on average imports from 1925-1930, that on fruit on average imports during each quarter 1929-1930-1931, while other quotas have been based on average imports for single years as 1930 or 1931. Since the percentage is a variable anyway (it has fluctuated between 25 per cent and 75 per cent), the use of the base period except as a suggestive guide to probable consumption needs is not significant for the size of the quota, but is rather the means of diverting imports into desired trade channels.

At first only total quotas were set, leaving exporters to France free to divide them up by agreement or to compete for shares. In most instances this method resulted in a mad rush to obtain the lion's portion; and the quota as well as the warehouses were filled within a brief period. Though this method is still used for less important quotas, in the majority of cases allocations are now announced for the chief exporting countries and a remaining percentage for "other countries." This is a better method if the problem of the base period can be settled, as it is less disruptive to the intricate and widely ramified trade structure and leaves the exporting country freer to promote fair play among its ex-

[14] In the case of the radio quotas 1930 was taken as the base period rather than 1931 which had been a boom year for American exporters. By the choice of 1930 both German and Dutch producers received a larger share of the quota than they would have received if 1931 had been taken.

[15] U. S. Department of State, Press Release, "Resolution of the American Chamber of Commerce in France delivered to Ambassador Edge," April 9, 1932.

porters.[16] The French government holds at the disposal of importers monthly statistics showing the status of importations subject to quotas at Paris at the National Office of Foreign Commerce and at Bordeaux, Cherbourg, Le Havre and Marseille at the Offices of the Chambers of Commerce.

In order to regulate more closely the flow of imports, since it proved to be almost impossible to secure statistical reports in time to close the frontiers before the quotas were exceeded, license systems have been adopted. At first they were required only for perishable commodities, but their use has been widely extended. At present goods enter by three methods. First there is a group of nine classes of items[17] for which no licenses are demanded, but which enter freely until the quota is filled—a scheme which has had undesirable consequences since it does not guarantee any ration to importers or foreign producers accustomed to supply the French market nor does it provide for the importation of superior products.[18] Also, it makes excess shipments more likely.

According to a second method, import permits are distributed to French importers who can therewith purchase from their usual foreign supply houses. This procedure is used almost exclusively to control agricultural imports under quota restrictions and is administered by a committee known as the *Comité Interprofessional*, set up within the *Ministère de l'Agriculture*.[19] It is divided into sub-committees which have the power to apportion the import licenses among French importers on the basis of their former imports.[20] This plan is used, also, for the importation of the 59 items put under temporary quotas in March, 1933. Application for these licenses must be approved by the *Confédération de la Produc-*

[16] The Netherlands has a law, passed December 24, 1931, which authorizes the government on the proposal of the Minister of Labor, Trade and Industry with the advice of a special commission to issue regulations governing the exportation of merchandise which is subject to quota restrictions in the country of destination. Its aim is to distribute such quotas among Dutch exporters in order to avoid shipment of merchandise in excess of quotas and to apportion the quotas with some degree of fairness.

[17] Extraits tannants végétaux, or battu en feuilles, meubles en bois courbé, balais de sorgho, ficelles, métiers à tricot et à bonneterie, gemmes, essences de térébenthine, huiles. *Moniteur Officiel du Commerce et de l'Industrie*, January 18, 1933, p. 181.

[18] In the case of the radio imports before licenses were used, it was complained that so-called "shoe-string" dealers and unauthorized agents of American radio manufacturers dumped unsaleable and inferior American products upon the French market. New York *Times*, September 29, 1932.

[19] Membership on the central committee includes *lé directeur de l'agriculture, le chef du 6 bureau de la direction de l'agriculture, le chef de l'office des renseignements agricoles* and *le chef de section à l'office des renseignements agricoles, secrétaire,* while the membership on the sub-committees includes chiefly the officials of the appropriate organizations. *Journal Officiel*, November 27, 1931, p. 12178.

[20] An additional requirement is sometimes added for agricultural products, making it necessary for them to enter only by way of certain customs offices.

*tion Française* or the *Office des Produits chimiques* before they are issued by the French customs administration.[21] Though less disruptive to established trade channels and less likely to lead to excess shipments, this method has resulted in each importer always demanding his maximum amount as well as making it impossible for new importers to get into the market.

The third method of control is to delegate to qualified officials or trade associations of foreign countries the sole authority to distribute licenses within the designated amount of that country's quota among its own exporters to France. As the following summary indicates, there is a great variety both as to type of individual or association as well as to the number of exports from a given country granted this privilege:[22]

| *Country* | *No. of quota classifications* | *Official or organization* |
|---|---|---|
| Germany | 31 | 4 chambers of commerce, 29 trade organizations |
| Belgium | 19 | Minister of Labor and Industry, Minister of Agriculture, Chamber of Commerce of Anvers, *Inspection Générale de l'Industrie,* Belgian group of the International Steel Cartel, 6 trade organizations, 2 official commissions for quotas. |
| Austria | 12 | Chamber of Commerce of Vienna, 6 trade organizations |
| Czechoslovakia | 8 | Minister of Commerce and Industry, 7 trade organizations |
| Great Britain | 7 | 6 trade organizations, Manchester Chamber of Commerce |
| Italy | 6 | Minister of Corporations, 3 trade organizations, *Office des Produits chimiques* in Paris |
| Netherlands | 4 | Administrator of Dutch Customs, Minister of Foreign Affairs, 2 export associations |
| United States | 2 | American Chamber of Commerce in Paris, one trade organization |
| Switzerland | 1 | Federal Department of Political Economy |
| Poland | 1 | *Office des Produits chimiques,* Paris |

Though such a system relieves French officials from the charges of favoritism, it is criticized for giving to foreigners the power to choose French imports as well as an opportunity to control prices. Further it

[21] *Journal Officiel,* March 21, 1933, pp. 2835-37, 2959.

[22] *Moniteur Officiel du Commerce et de l'Industrie,* January 18, 1933, pp. 181-185, and *Journal Officiel,* January 1, 1933, pp. 25-39.

is very uneven in its application since within a given quota, goods from some countries will come in under certificates granted by their own officials or associations while the same commodities from other countries with allotments will enter on chance, where there is no official or organization satisfactory to the French government or willing to undertake the obligation.

The quotas are announced in the *Journal Officiel* as official decrees by the Minister of Commerce and Industry or by the Minister of Agriculture and are always signed by the President of the Council of Ministers of France, the Minister of Commerce and Industry and the Minister of Finance. If it applies to an agricultural product the Minister of Agriculture signs also, and in occasional decrees where diplomatic or budget problems are involved the signatures of the Minister of the Budget and the Minister of Foreign Affairs are added. Some of the quotas have been imposed without any warning, while a number of quotas on manufactured articles have been set after conversations with representatives of German, Belgian and Czechoslovakian industries.[23] Exemptions include reparations, material destined for naval construction and shipments specifically certified by the Fédération de la Mechanique Française, le Syndicat Général de la Construction Electrique and le Syndicat des Industries Techniques de la Précision as essential to French industry.[24]

Since the imposition of the quotas during the year, August, 1931-July, 1932, there has been no significant change in policy. Though the import quota system was denounced in Herriot's pre-election campaign as isolating France from the benefits of low world prices, the first pronouncement of his Minister of Commerce, M. Durand, was to maintain the quotas *in toto* for the third quarter of 1932 with some favorable increases and certain modifications.[25] In the decrees for the fourth quarter

[23] In the case of Germany these negotiations have been carried on through the medium of *La Commission Economique Franco-Allemande,* which was organized in September, 1931, after the visit of Laval and Briand to Berlin. In discussing the quotas before *La Fédération des Industriels et Commerçants* M. Durand made a definite distinction between the quotas set after conferences and others:

". . . It is, however, necessary to distinguish between: some are quotas of authority issued by unilateral decree, seemingly arbitrary and unstable, while others are only the ratification of accords negotiated between our country and foreign industrialists. Such quotas are very different and can even be considered the means of organizing production and exchange on the condition, of course, that the government, the born protector of the general interest, shall always have control over them by consenting or refusing its sanction." *La Journée Industrielle,* October 29, 1932.

[24] *Journal Officiel,* January 1, 1933, pp. 26, 31, 34, 35.

[25] The following *communiqué* was issued by the Ministry of Commerce of France on June 28, 1932:

"Monsieur Julien Durand, Minister of Commerce and Industry, has now fixed definitely the necessary measures for renewing from July 1 the import quotas on manufactured goods.

"The Minister has followed the double rule not to break abruptly from the present

not one of the industrial quotas was decreased and quotas on more than 40 products were increased between 20 and 30 per cent. During the first two quarters of 1933 there were practically no revisions except for the temporary quotas (see below) and the decreases caused by the excesses in the previous quarter, and hope was revived that France would ease up on her trade restrictions. Such was not the case, however, and in answer to the temper of the International Monetary and Economic Conference, the quotas announced for July 1, 1933, were considerably reduced, indicating at least for the present that France has no intention of abandoning this form of economic armament.

Temporary quotas have been used in two instances pending new tariff legislation. On November 9, 1932, a quota was set for coffee imports in order to prevent a rush of imports before the imposition of a new and higher duty which was being levied for revenue purposes. In the other case after the revision of the Franco-German trade agreement a decree of March 21 placed 59 articles imported chiefly from Germany under quotas with licenses required. It was definitely stated that these quotas would automatically cease with the promulgation of the new tariffs.

### *Effect of Foreign Relations*

With regard to relations with other countries, the quotas have raised several problems both as to their effect on the most-favored-nation treatment as well as to the several technical difficulties of administration. As a result of the diplomatic conversations which followed the protest from the American Chamber of Commerce in Paris to Ambassador Edge,[26] M. André Tardieu, then President of the Council of Ministers of France and Minister of Foreign Affairs, sent a note to Ambassador Edge assuring the United States most-favored-nation treatment in all matters

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system and also to prepare for a progressive return to greater liberty in international exchanges.

"On the whole the existing quotas are maintained, but the greater part of them are increased in proportions varying from 10 per cent to 30 per cent of the quantities hitherto authorized to be imported. For the goods whose quantities are unchanged the new *arrêts* will effect certain modifications intended to render the application of the quotas more flexible.

"A certain number of goods under quotas are now the subject of negotiations between French and foreign industrialists. The results of these conversations will serve as a basis for the future regulation of the quotas so far as these are to be maintained.

"The *arrêts* and notices which will appear shortly in the *Journal Officiel* will show that the Minister of Commerce and Industry has taken full account of all the observations which have been made to him on the subject and that he has endeavored to establish a kind of arbitration between the different interests, at times somewhat opposed to one another, affected by the policy of quotas."

U. S. Department of State, Press Release, June 28, 1932.

[26] U. S. Department of State, Press Release, April 9, 1932.

relating to quotas and granting a minimum guarantee that no quota for an American commodity would be reduced to an amount "less than 10 per cent of the total importation of that commodity during the year 1931 when the importation from the United States during the same year, 1931, had been equal to or greater than 10 per cent," and that where it had been inferior to 10 per cent of the total importation the quota would be fixed at the 1931 level. In addition, greater opportunity to take part in the conversations between industrialists of France and those of other countries was offered and assent was given for a licensing system.[27] Similar agreements have been concluded with Austria, Estonia, Switzerland and Sweden, wherein France has promised that her quota restrictions, either as a whole or on certain commodities would not reduce imports from the countries concerned below certain stated quantities or below certain levels of imports of previous years.[28]

### *French Attitudes toward the Import Quotas*

Aside from the French government, the traditional attitudes toward protective policies are evident in the French response to the import quotas. All the interests involved in French foreign trade such as importing houses, transportation and port interests and exporting industries have protested formally, condemning the import quota system as harmful to French commerce by causing reprisals, abrupt falls in normal trade exchanges, excessive price fluctuations and general interference with trade. In addition they have criticized the totally "insufficient methods of evaluation" and have emphasized the 26 per cent loss to the treasury from customs revenue[29] at a time when it could ill afford it. As an effective protest against the extreme protectionism of France, especially the import quota system, the *Union Française des Industries Exportatrices* was organized in 1932 which held an International Trade Congress in April, 1933, and appointed a permanent committee to work for economic disarmament.[30]

Typical of the other point of view is the following excerpt from a telegram sent to the Ministry of Commerce and Industry from the Chamber of Commerce of Nancy:

[27] U. S. Department of State, Press Release, June 7, 1932.

[28] *Moniteur Officiel du Commerce et de l'Industrie*, March 18, 1933, pp. 1119-22.

[29] There has been an attempt to make up this deficit by a law promulgated March 1, 1933, imposing taxes on import quota licenses and quota certificates. The amount of the tax is left to the Minister of Commerce. In all, licenses for 40 specified items have been so taxed. *Journal Officiel*, March 1, 1933, and May 13 and 14, 1933.

[30] Other organizations which have denounced the import quota system include the following: Union des Chambres de la Commerce Maritimes et des Ports Français, le Comité Central de la Laine, Association Nationale d'Expansion Economique, Chambre de Commerce de Paris, Conseil National Economique, Comité d'Action Economique et Douanière.



to indicate that France is beginning to look upon the quota system as

> If such suggestions (the suppression of the quotas) should be accepted by the government, it would result without doubt in the immediate closing of our metallurgical factories of the East with tragic consequences of general unemployment for our large working population, causing in its wake, likewise, the closing of factories producing the necessities of life for our people.
>
> We beg of you to maintain the quotas, the only efficacious and actual safeguard for our domestic market, while revising the tariffs, which on account of the increase in taxes, are only half as high, relatively as the duties were before the war.[31]

*La Confédération Générale de la Production Française* maintains that import quotas are necessary to protect some products until world conditions become stabilized, that for other products quotas set by international agreements between producers are preferable while for still other products higher tariffs would be more desirable after the deconsolidation of duties is accomplished.[32] For the present, however, it feels that the import quotas provide a needed line of defense against lower world prices. According to M. Tardieu, their champion, "We (the French) must not permit them to be removed, for they serve as an answer to the import restrictions of other nations and their monetary devaluations."

### *Conclusions*

There can be no question but that France instituted her quota system as a first-aid measure to safeguard the domestic market for French producers, agricultural and industrial, and to reinforce her protective tariff system, crippled by consolidated tariffs in commercial treaties. As such they can be considered a qualified success, though it is difficult to differentiate between the effects of the quotas and her other trade restrictions, such as her special surtax on imports from countries with depreciated currencies, clearing-house agreements, the turnover-tax on imports, severe marking regulations, laws similar to the wheat law and the sanitary regulations. During 1932 exports fell off in value 35 per cent, while imports dropped 29 per cent; but when it is added that imports of manufactured products declined 40 per cent this is not such a bad showing, particularly when it is remembered that French exports are luxury products, unwelcome in an impoverished world and that French prices, well above world prices have attracted imports. The fact, however, that the present French Parliament (June, 1933) is strongly against the abolition of import quotas and that the committee on customs of the Chamber of Deputies rejected a bill to grant to the government power to substitute higher tariffs for quotas by decree would seem

[31] *La Journée Industrielle,* November 13-14, 1932.
[32] *La Journée Industrielle,* November 5, 1932.

to indicate that France is beginning to look upon the quota system as a permanent instrument of her trade policy.

It is, nevertheless, her experience in developing a new technique which is of more importance to students of international economics, interested in forms of trade control. On the one hand, the arguments against the import quotas are many—they represent a usurpation of legislative authority by the executive; they necessitate government intervention into business affairs; they diminish competition in the import trade; they are based on past conditions; they are technically complicated involving delicate decisions; and they can render negative most-favored-nation treaties. Moreover, they have proved capable of political manipulation and have offered additional temptation to customs officials. On the other hand, they are superior to protective tariffs as a defensive and protective weapon; they are immediate, since they take effect at once upon the promulgation of the executive decree without a long drawn-out legislative process; they are flexible and can easily be revised to meet varying conditions or rising prices;[38] and as restrictions they are effective. As one Frenchman aptly put it, they are more rational because they go directly to the point.

Since import quotas require careful economic planning for their scientific application, those who believe in a regulated economy find justification in their use; while others who cling to a belief in the benefits of the natural flow of trade, consider them only another disastrous obstacle to economic recovery. If, in truth, we have reached "the end of *laissez faire*," the corollary of which has always been free trade, it would seem as if import quotas merit consideration, not as a weapon but as an instrument of economic control.

Ethel B. Dietrich

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[38] M. Durand said in defending them, "If any quota causes an abnormal rise of price, then I will open the port." *La Journée Industrielle*, October 29, 1932.



who are forced to curtail their standard of living and their saving, but also

## COMMUNICATIONS

### "Mr. Keynes's Control Scheme"

In an article published under the above title in the *American Economic Review* for June, 1933, Professor Edward C. Simmons bases a criticism of what he calls my "scheme for the control of the business cycle" on statistics directed to establishing the well known fact that long-term and short-term rates of interest in the United States from 1928 to 1932 moved very differently in degree, and that generalisations based on more normal periods ceased to hold accurately, though even in these abnormal years the *directions* of changes in the two rates were the same. Anyone who is well acquainted with my writings will, however, be aware that I am not one of those who believe that the business cycle can be controlled solely by manipulation of the short-term rate of interest, that I am indeed a strong critic of this view, and that I have paid much attention to alternative and supplementary methods of controlling the rate of interest. Since, however, myths once started are persistent, it may be unwise of me to allow this representation of my argument to pass uncorrected.

In the passage of my *Treatise on Money* on which Professor Simmons' comments are based, so far from contending that the short-term rate of interest is an infallible means of controlling the long-term rate, I was arguing only that it frequently has more influence than is strictly reasonable and that there are various reasons why the influence is not so negligible as one might have expected. But to attribute to me, as Professor Simmons does, the idea that the business cycle can be completely controlled by changes in the short-term rate of interest invariably operating in the required degree on the long-term rate of interest, is remote from what I said. If this were my view I should agree with him that my "scheme for the control of the business cycle has a doubtful basis." My proposals for the control of the business cycle are based on the control of *investment*. I have explained in detail that the most effective ways of controlling investment vary according to circumstances; and I have been foremost to point out that circumstances can arise, and have arisen recently, when neither control of the short-term rate of interest nor even control of the long-term rate will be effective, with the result that direct stimulation of investment by government is the necessary means. Before a very abnormal situation has been allowed to develop, however, much milder methods, including control of the short-term rate of interest, may sometimes be sufficient, whilst they are seldom or never negligible.

J. M. Keynes

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### "Social Aspects of Commercial Banking Theory"

In his article under this title, published in the June, 1933, issue of the *Review*, Frederick A. Bradford advanced the theory that a deflation of investment credit has more serious consequences than a deflation of commercial bank credit. In my opinion, however, the opposite conclusion is sounder.

Deflation of commercial bank credit forces business men to throw their inventories on the market, and results in unprofitable prices for most producers. Unprofitable prices for commodities not only harm the entrepreneurs,

who are forced to curtail their standard of living and their saving, but also result in curtailment of production and consequent unemployment for millions of workers. Initial price declines, and the unemployment caused by them, in turn lower the velocity of circulation of the already reduced supply of purchasing power by changing public psychology, and thus result in the so-called "vicious spiral of deflation."

On the other hand, a deflation of investment credit merely wipes out the paper profits of that very small proportion, probably less than one per cent, of the population who have appreciable holdings of common stocks. This may cause the bankers to initiate a program of commercial bank credit restriction, with, of course, all the evil effects of the latter. It would seem equally reasonable, however, to assert that every commercial bank credit deflation must result in an investment credit deflation, and thus cause indirectly all the evils of the latter, in addition to its own.

If investment credit deflation and commercial bank credit deflation must go together, and experience would seem so to indicate, the question of which causes the greater evil is unimportant. If they may occur separately, the commercial bank credit deflation, since it causes drastic curtailment of production would seem to be much more undesirable than investment credit deflation, which merely curtails investment and the rate of expansion of commodity production.

I think that Bradford's contention, or implication, that investment credit inflation is more serious than commercial bank credit, is also unsound. The former inflates the prices of securities, thus distorting saving and investment, but the latter inflates commodity prices, thus throwing the entire field of commodity production out of gear. Certainly, soundly regulated commodity production is more vital than soundly regulated saving and investment, at least in the short run; and that is all we are considering, since the process of inflation is necessarily temporary.

One more point deserves note. After explaining that commercial banks increase their investments at the very time when they are contracting their loans, Bradford goes on to argue that investments by banks are harmful because they cause inflation. Personally, I should think that such an inflationary force ought to be extremely welcome at such times.

BURNHAM P. BECKWITH

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COMMENT: Mr. Beckwith's criticism of certain of my opinions and conclusions is based in some part, it seems to me, on a failure to note my definition of investment inflation. As stated in my article, "the term 'investment inflation' is used throughout to mean the creation of deposit currency for investment purposes." This being the case, it does not, as Mr. Beckwith maintains, seem reasonable "to assert that every commercial bank credit deflation must result in an investment credit deflation." If the banks were limited in their investment loans and bond purchases to their capital funds plus their savings deposits, it seems clear that no investment deflation could occur, since there could be no investment inflation as defined above.

I am quite in agreement with Mr. Beckwith as regards his conclusion that investment and commercial deflation must go together, provided that there has been investment inflation in the first place. What is largely an investment inflation may, upon giving rise to a subsequent deflation, carry with it the

seeds of a commercial credit deflation which would not otherwise have necessarily occurred. A drastic deflation of security prices has repercussions of significance to the whole economic structure. It weakens greatly the condition of the banks and leads to a contraction of both investment and commercial credit by these institutions, thus doing much more damage than merely to wipe out the paper profits of the stockholding group, although the latter, according to a conservative recent estimate by Professor Starch, comprises some 10,000,000 people, or about one-fifth to one-fourth of the employable population.

Mr. Beckwith would apparently agree with the statement that an investment credit deflation is likely to bring in its train a deflation of commercial credit as indicated in the preceding paragraph. What he apparently fails to see, however, is that the elimination of investment inflation and deflation would aid, in some cases at least, in the prevention of unnecessarily severe and prolonged deflation of commercial bank credit with its deplorable consequences. One can scarcely consider the investment deflation of 1929-1932 and note its effects on banking, insurance and investment companies, without some misgivings as to the desirability of permitting investment inflation to occur without attempting its close restriction or elimination.

Finally, I cannot agree with Mr. Beckwith's conclusion that "soundly regulated commodity production is more vital than soundly regulated saving and investment, at least in the short run," for the reason that the former is impossible without the latter. His contention in this connection seems to overlook the point, which is important in my judgment, that it is impossible to time measures for controlling properly both commercial and investment credit expansion simultaneously, as well as the fact that commercial credit expansion is more definitely subject to control when inflation of investment credit is not also taking place. Investment inflation is a complicating factor which interferes with sound commercial credit policy, impairs the quality of bank credit, and is not amenable to control under any clear-cut criteria. For these reasons, if for no others, its elimination would seem to be a highly desirable objective.

Frederick A. Bradford

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## Bimetallism Before and After 1834

Presentation of scientific law is a fine art, and perhaps one should not cavil if historic facts are distorted in the illustration of a principle. Still, it may be assumed that such procedure falls short of the ideal. A case in point is the well known illustration of the operation of bimetallism before and after 1834.

Professor Taussig, for example, in his *Principles of Economics* (3rd rev. ed., Vol. I, pp. 264-265), in discussing our experience with bimetallism from 1792 to 1834 says, in connection with the point that silver was overvalued, "No gold was presented for coinage." He then describes the devaluation of gold coins in 1834 and points out that gold was overvalued "as much as the old ratio had overvalued silver" and adds, "Gold alone was now presented at the mint for coinage."

This illustration is very neat. The mint ratio overvalued silver and no gold was coined; then the change that was made overrated gold and no silver was

coined. History supports the theory! The student is instructed in the principle and is edified by a touch of his country's experience. The difficulty is that the illustration is not accurate, if the report of the Director of the Mint is to be believed. The report for 1900 shows that almost $1,000,000 of gold was coined in 1833, over $700,000 per year in 1832 and 1831, and $643,105 in 1830. The total gold coinage for these four years amounted to almost one-third of the total silver coinage.

Far more striking, however, is the record subsequent to 1834. In only two of the following nine years, namely, in 1834 and 1836, did the coinage of gold equal the coinage of silver; and in each of these years, and also in 1835, the coinage of silver exceeded the amount coined during any preceding year in the country's history. There was a slight falling off in the volume of silver coinage beginning in 1837, but still it exceeded the amount of gold coinage every year until 1843.

The principle of follow-the-leader is clearly shown in this matter. A cursory examination of many recent texts in economics and also of some of the books devoted to money and banking shows a somewhat general repetition of this illustration—"no gold coined before 1834," "no silver coined after 1834." Even some of the currency historians by failing to emphasize the data that conflict with the general principle permit a wrong inference to be drawn. A notable exception is Neil Carothers in his *Fractional Money* published in 1930. He gives a full account of the matter and an able discussion of the anomalous condition in each of these two periods. His work really makes this note unnecessary, at least, in more than skeleton form.

Many of the textbook writers, including some who make no reference to the coinage feature, emphasize the point that before 1834 gold was forced out of the country because of the adverse coinage ratio that prevailed, and that silver was expelled by the change that was made in that year. The truth seems to be that gold was exported during the earlier period; but, unfortunate as it may be for classroom purposes, silver coins were also exported. Indeed, the exportation of silver dollars was so pronounced that their coinage was prohibited from 1806 to 1836. The fractional silver coins were full weight, however, and were exported in large quantities. It was estimated in 1830 that of the $25,000,000 of silver coins that had been made only $14,000,000 were then in the country (Carothers, p. 76). In 1831, out of the $11,000,000 in specie in the United States Bank only $2,000,000 were United States coins (Laughlin's History of *Bimetallism,* p. 54).

The data of coin and bullion imports and exports as given in the report of the Director of the Mint are, obviously, not complete, since coin carried by travelers is not recorded. But as the record stands it offers but little basis for the nice illustrations of many of the books. In line with the theory and in conformity with the texts that refer to this phase of the matter, there should have been no gold imports and no silver exports in the first period, and the opposite condition in the second period, but the record fails to show this. If the best possible case is made by computing net exports and net imports, the record still does not bear out the neat claims that are made for the potency of the disparity between the coinage and the market ratios. From 1826 to 1833, inclusive, the import of silver exceeded the export. This accords with the pedagogical illustration, if the word *net* is allowed to drown out the exports. But in 1834 there was almost three times as much net importation of silver as in the preceding year, and in each of the following years down to

and including 1840 the record shows net imports of silver, which on the whole exceeded those of the years preceding 1834. The cessation of revolutionary disturbances in the Latin-American countries and the revival of silver mining in Mexico on a large scale are noted by Carothers as factors in bringing about this huge importation of silver despite the unfavorable ratio.

Gold behaved much better than silver, according to the official record, but still does not bear out the illustration even on a net reckoning. During the years 1826-1833, inclusive, there were net exports of gold and net imports during the three following years. This is very good, if the imports in the one period and the exports in the other are neglected. But in 1837 and in four of the following five years the records show net exports of gold.

Schoolmen, apparently, are not alone in assuming historical verification of tendencies. In the report of the Director of the Mint for 1900, p. 514, there is a short summary of our monetary history in which appear the words, "The act of 1792 undervalued gold, which was therefore exported. . . . The act of 1834 undervalued silver . . . and silver was attracted to Europe."

Clearly, the tendency in respect to both coinage and export under an imperfectly balanced bimetallic standard was checkmated both before and after 1834 by other forces. When counter-tendencies are unknown or cannot be fully accounted for economists will perhaps do well to follow the suggestion of a wise teacher who said with some passion one day to contentious students, "This is a course in economic theory. We do not care about the facts."

H. Gordon Hayes

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## Correction

Professor E. M. Coulter's review of Dr. Gray's *History of Southern Agriculture to 1860,* published in the September issue of the *American Economic Review* (pp. 496-7) has come to my attention. He has made one error which I should like to have corrected—he speaks of me as joint author, which is entirely erroneous. On page xiii in the preface of Volume I Dr. Gray gave full credit for my work on the book. The actual selection of material used and its interpretation are entirely Dr. Gray's. He very generously included my name on the title page; but I had no idea that "assisted by" might be interpreted as joint author.

Esther K. Thompson

# REVIEWS AND NEW BOOKS

## General Works, Theory and Its History

*Interregional and International Trade.* By BERTIL OHLIN. Harvard econ. stud. 39. (Cambridge: Harvard Univ. Press. 1933. Pp. xvii, 617. $5.00.)

No work on international trade published since the war can be ranked higher in significance than this long-awaited volume by Professor Ohlin. Ever since Ricardo first clearly formulated the law of comparative cost, this doctrine—simplified, elaborated, and qualified—has been the backbone of the theory of international trade as presented by the dominant neo-classical school of writers. Based as it is on a labor cost theory of value, a theory long discarded in the general treatment of value, it has aroused increasing opposition on the grounds of this obvious inconsistency. Though the literature of criticism has grown in volume, no satisfactory substitute for the classical doctrine has, until now, been advanced. Ohlin's work is a highly successful attempt to fill this gap.

The foundations of his analysis are laid in the Walras-Pareto-Cassel mutual interdependence theory of pricing. But, as Ohlin says, this "general theory of pricing is almost exclusively a *one-market theory*, wherein the idea of space hardly figures at all." The geographical distribution of productive factors and the varying degrees of mobility of these factors and of goods make of each country or region a separate market. The present volume is essentially an expansion of the powerful analytical apparatus of general price theory to cover this broader case of multiple but related markets. Thereby the theory of international prices becomes an integral and consistent part of the general system of mutual interdependence. Capital movements, changed international demands, new protective duties, are seen as single elements initiating widely ramified readjustments in an extremely complex, delicately balanced, but closely interdependent economic system.

Three main topics are discussed in the book: the fundamental principles of interregional and international trade (Parts 1 and 2), the influence of obstacles to the movement of commodities and productive factors (Parts 3 and 4), and the mechanism of international trade variations and capital movements (Part 5).

The starting-point for the discussion of the first of these problems is found in the fact that trade rests on cheapness, *i.e.*, price differences. To explain these, and thus to lay bare the essentials of international trade, Ohlin looks to regional differences in the "basic elements of pricing," above all, to differences in the supply of the productive agents. The very essence of the problem rests in the two-fold circumstance that different commodities require different combinations of land, labor, and capital in

their production, while different countries are equipped with these factors in very unequal fashion. As a result, the production of commodities with certain factor requirements will locate where the supply of the factors best corresponds to these needs, that is, where they are cheapest. Naturally variations in the supply of, or demand for, them will bring about variations in the location of industry and in the course of international trade.

It is impossible, of course, to speak of relative cheapness of production as between two regions or countries unless prices in one region can be expressed in the currency of the other: the exchange rate must be known. This is established by each country's demand for the other's goods, which in turn depends partially on national price conditions. Thus mutual interdependence characterizes all economic relations. "Everything depends on everything else in economic life."

The problem involved in the comparison of the productive factors is squarely faced. Ohlin adopts the realistic principle of grouping all types of agents together so far as they possess, in common, economically relevant qualities. The grouping will naturally vary with the detail of analysis.

The material in Parts 3 and 4 is detailed and elaborate. Space forbids all but mention of two important points. First, a very considerable advance is made toward a general theory of industrial localization based on the work of A. Weber. Second, considerable emphasis is laid on the fact that commodity movements, by distributing the products of abundant factors to places where these factors are scarce, not only equalize commodity prices but the prices of the productive factors as well. Factor movements are thus reduced. On the other hand, factor movements, by directly reducing factor price differences, thereby indirectly bring about a greater equalization of commodity prices. Commodity and factor movements may thus be regarded as substitutes for one another.

Ohlin argues in Part 5 that the long-run adjustment of a disturbance in the balance of payments is brought about by a balancing change in commodity transactions. "Commodity trade adjusts itself to variations in the long-time capital movements, but the latter do not as a rule adjust themselves to trade variations" (p. 383). A consideration important for this conclusion is the fact that capital can move only in the form of goods or services. While there is much to be said for this view, nevertheless this point needs further elaboration and clarification. Especially is this true in view of the following statement: "International capital movements of this (long-time) sort are due to differences in long-term interest rates and other comparatively permanent circumstances, and these circumstances are not often much affected by changes in the volume of imports and exports of goods and services" (p. 384). Surely,

since the long-term interest rate is the price of a productive factor, this is in conflict with the earlier conclusion that one of the chief effects of international commodity movements is the equalization of factor prices.

Professor Ohlin's is probably the clearest and most comprehensive discussion of the short-run mechanism of adjustment published to date. The major rôle is taken by short-term capital transfers; and gold movements, following Williams and Angell, are given a position of only secondary importance.

The discussion of the monetary mechanism of international capital transfer skillfully elaborates and clarifies the position taken by the author in his controversy with Keynes (*Economic Journal*, **1929**). The central doctrine is that, in advance of the transfer of goods, there is a prior transfer of purchasing power which directly and indirectly brings about the required alteration of the commodity balance of trade. If the mechanism is set in motion through the sale to banks in the borrowing country (B) of bills on the lending country (L), part of the funds thus secured may be used to buy more imports, and part to buy some of B's former exports. The remainder will be expended on home-market goods, the corresponding bills on L being converted into foreign exchange reserves. These in turn will induce a further expansion of purchasing power. Similar but opposite changes will, of course, occur in L. If the initial steps in the transfer are taken in the capital exporting country, Ohlin assumes that L hands over the loaned sum to B in the form of bills on a third country. The sequence of events in both countries will be similar to the above.

This theory is presented convincingly, even brilliantly. It accounts for the "surprising exactness and speed" which Taussig notes as characterizing the adjustment of the actual merchandise movements to the shifting balance of payments. The close attention to changes in *categories* of prices (export, import, home-market) rather than to changes in general price levels, and the emphasis, in this connection, on the significance of differing combinations of the productive factors in different industries and countries, mark a distinct advance on the neo-classical view.

However satisfactory this theory may be in accounting for perhaps most historical instances of capital movements, it is difficult to avoid the suspicion that it is *not* a theory of universal validity. The concrete mechanism is discussed by Ohlin only in terms of the two cases outlined briefly above. Each seems to require a special assumption, as pointed out by Keynes in the controversy on German reparations in 1929. Either the banks (or the central bank) in the borrowing country must be willing to increase their holdings of foreign exchange in the

lending country, or the banks in the lending country must possess in advance a supply of bills on a third country. If neither of these required conditions exists, gold must flow—*unless* the required foreign balance is created by short-term lending. The very nature of international banking and the large size of short-term capital movements indicate that this factor may furnish a satisfactory substitute when the assumptions required by Ohlin's theory are not fulfilled. Short-term loans by a third country to the lending country, for instance, would provide a supply of bills over a period sufficiently long for the monetary mechanism to produce the required alteration in the commodity balance of trade.

In conclusion, it may be noted that as Ohlin himself points out, his views on international trade do not so much overthrow the conclusions of classical theory as simplify and clarify the analysis, and render it more consistent with general equilibrium theory. This in itself, however, is a great achievement; for no field of economic thought has been such a water-tight compartment full of rejected assumptions, nor been so in need of skillful synthesis. This work the author ably performs.

P. T. Ellsworth

*University of Cincinnati*

*The Theory of Monopolistic Competition.* By Edward Chamberlin. (Cambridge: Harvard Univ. Press. 1933. Pp. x, 213. $2.50.)

*The Economics of Imperfect Competition.* By Joan Robinson. (New York: Macmillan. 1933. Pp. xii, 352. $7.20.)

The appearance of these two books marks the maturity of a new approach to value theory. Although the idea of partial competition has been entertained by economists since Cournot, only recently has it been more than an intellectual curiosity, a special case to be dealt with parenthetically. In the last decade it provoked articles in the professional journals, two or three years ago a pioneering book by Doctor Zeuthen. Now Mrs. Robinson and Professor Chamberlin have developed it into a systematic theory of market relationships, competent to be substituted for or to enfold the competitive analysis. Neither book undertakes to be comprehensive, but each uses a method readily employable for further study; and each fills in some of the gaps in the other.

Mrs. Robinson's work is based upon pecuniary calculation by a single enterprise which endeavors so to adjust production to its individual demand that marginal revenue is equal to marginal cost. Environments of competition, monoply, and partial monoply are, from the point of view of the single enterprise, conditions of varying elasticity of cost and demand, under each of which the adjustment of marginal revenue

to cost must take place. Thus the classical account of perfect competition appears as one of the boundaries of the analysis, whereas the classical account of monopoly is here differentiated into many degrees of monopoly. Monopoly price and output are compared with competitive under conditions of increasing, constant, and declining cost, convex and concave demand curves, uniform and discriminatory monopoly pricing. Buyer's monopoly, or monopsony, is discussed with especial reference to the demand for factors of production, and culminates in a theory of the exploitation of labor by virtue of the imperfection of the market. In a final chapter, an effort is made to describe the allocation of productive resources in a world in which every product is monopolistically controlled.

Professor Chamberlin likewise begins with individual enterprise, but only to make clear the nature of cost and output under competition. His analysis of partial monopoly depends upon the successive positions of the demand curve of a single enterprise as its rivals change their market policy. Thus he misses the geometrical determinateness of Mrs. Robinson's graphs; but thus he recognizes, as she does not, that policy in semi-monopolistic markets depends upon belief about the way in which rival enterprises will retaliate. Omitting the analysis of distribution, he includes studies of differentiation of products and the significance of selling costs, both of which were skipped by Mrs. Robinson.

To both authors, the competitive equilibrium remains the norm of efficiency, although Mrs. Robinson is keenly aware of the dubious nature of the utility concepts upon which the appraisal is based. Both authors agree that the general effect of partial monopoly is to restrict output and to raise price. Professor Chamberlin adds that it increases the number of enterprises and promotes excessive differentiation of products. Mrs. Robinson adds that it facilitates exploitation of labor. Professor Chamberlin's adverse appraisals are unqualified, whereas Mrs. Robinson includes, as unlikely but possible, cases in which monopoly extends output and lowers prices. In part this difference springs from the fact that Mrs. Robinson is more aware of the significance of elasticity of demand. In part it is due to the fact that Mrs. Robinson has accepted the Cambridge school's unfortunate concept of declining cost curves. In this concept, changes in the position of the cost curve as technology develops are confused, by the use of Marshall's long-run analysis, with successive points upon the same cost curve. Professor Chamberlin carefully avoids this trap.

Both Professor Chamberlin's analysis and Mrs. Robinson's are founded upon classical postulates. Both accept market demand as a socially desirable guide to production. Both deal with production as an exercise in pecuniary logic, abstracted from "irrational" behavior, limitations

upon knowledge, and technological requirements. Since their concept of the imperfect market requires them to admit a certain loyalty and ignorance on the part of the consumer, the strict price logic of the producer is thrown into high relief. Both are concerned with the processes of adjustment to an equilibrium rather than with the cumulative changes of a business cycle or a commercial evolution. Neither is concerned with joint costs, trade practices, financial profits not attained by the sale of goods; Mrs. Robinson is not concerned with sales effort. Both fail to introduce time as a significant variable in determining market policy.

Professor Chamberlin is evidently aware of these limitations, but sufficiently in the neo-classical tradition that they disturb him little. Mrs. Robinson, on the other hand, is distressed at their unreality, and closes her book with the remark:

> The reader who is interested in results immediately applicable to the real world has every right to complain that these tools are of little use to him. The knives are of bone and the hammers of wood, only capable of cutting paper and driving pins into cardboard. But the analytical economist who is prepared to work stage by stage towards the still far-distant ideal of constructing an analysis which will be capable of solving the problems presented by the real world may perhaps find in this tool-box some implements which will serve his turn.

As Mrs. Robinson recognizes, the limitations of these theories will make them unsatisfactory to those who are seeking a "dynamic," "realistic," "inductive," and "institutional" study of markets. Yet the general acceptance of imperfect market theories by the neo-classicists must change the issues in controversy between them and their critics. There is little food in these books for the mild complacency of the theorists of perfect competition. In Mrs. Robinson's book, the emphasis upon the variety of circumstance and result discourages any use of value theory for pat answers to issues of economic policy. Professor Chamberlin is still open to the question of whether in correcting the competitive analysis he has attained a pattern true to the facts of modern markets; Mrs. Robinson would be the first to insist that she has not. The question with which one must approach her work is whether any conceivable perfection of the tools in her tool-box will make a quantitive, rationalistic analysis adequate. Those of us who think not still welcome such work as hers and Professor Chamberlin's as the only way of finding out. Should the way thus opened prove a blind alley instead of an avenue, it will not be the first or the narrowest of value theory's cul-de-sacs; and few guides to new pathways have offered more subtle and symmetrical guidebooks.

*New York University* CORWIN D. EDWARDS

*The Theory of Wages.* By J. R. Hicks. (London: Macmillan. 1932. Pp. xiv, 247. $2.25.)

"The task which is attempted in this book is a restatement of the theory of wages in a form which shall be reasonably abreast of modern economic knowledge." The author is of the opinion that the marginal productivity theory seizes upon the most significant and fundamental facts of the labor market. The restatement of the theory of wages consists of an exposition of the marginal productivity theory elaborated to include an analysis of circumstances that earlier marginal productivity theorists "regarded as not worthy of special attention." The first chapter of the book is, therefore, an exposition of the familiar highly idealized theory. In subsequent chapters the author considers the relation to this general theory of the following: differences between individual workers, unemployment, the working of competition, willingness and ability of men to work, distribution and economic progress, the activities and growth of trade unions, wage regulation by government, and the regulation of hours and conditions of work.

In his exposition the author is careful to indicate that wages would be adjusted completely in accordance with marginal productivity only in a condition of equilibrium of production, prices, and incomes. The idea, however, that this theory provides a proper basis for the analysis of the conditions of various labor markets, can be maintained only if the interests of employers and workmen generally lead them to act in such ways as to tend to establish the equilibrium described. In its conclusions the present restatement of the marginal productivity theory is true to its earlier prototypes. The book concludes with the statement, "Just as the problem of individual economy arises from the limitations of resources, so do the economic problems of society arise from the hard necessity of cutting a coat according to the cloth." And the whole of the preceding analysis is based upon the idea that, in the absence of trade unions and government interference, the level of wages tends to be as high as the resources at society's disposal make possible. The strict logic of the argument by which this conclusion is reached depends upon the assumption that the prices of commodities, as well as the prices of labor and capital, are adjusted in accordance with the theory of competitive prices.

Economic theorists now usually recognize that most markets contain both monopolistic and competitive elements, but they have usually supposed that, in the absence of interferences with competition by combinations or government, the marginal productivity theory is a valid explanation of "general" or "normal" tendencies. This supposition needs to be carefully scrutinized. Business enterprises frequently have (as a result of trade marks, trade connections, customary clienteles, or

location) a demand for their products partially independent of the demands for the products of other enterprises. Considerable labor and capital is employed in manipulating and maintaining such demands rather than in producing the things that buyers acquire in the market; and productive labor and capital are frequently evaluated in the light of the relation of output to price policies for which such differentiated demands are responsible. Under such circumstances it cannot be contended that the number of employees which would render an employer's profit a maximum "is given by the equality of wages to (the price of) the marginal product of the labor employed." Nor does it appear that the monopolistic control which business enterprises frequently have, even when they are engaged in the most spectacular competition, can properly be regared as "frictions" which do not invalidate the marginal productivity theory as an explanation of "normal," "general," or "long run" tendencies. The demands for the products of particular enterprises may be highly variable, but the commercial policies for which these differentiated demands are responsible appear to be as permanent as any other features of the present economic order.

In the face of the "frictions" with which wages are reputed to tend to be adjusted to the ideal equilibrium, the author apparently is disposed to concede a partial justification for trade-union activities. However, his theoretical analysis leads him to view with misgivings such activities if they are more than moderately effective in raising or maintaining the wages of particular groups. Likewise he is alarmed by government policies that fortify trade-union power. If the prevalence of monopoly (with or without trade unionism and government interference with the labor market) were recognized, the advantage of having the monopolistic control exercised principally by business enterprises would not be so easily demonstrated.

L. A. Morrison

*New York University*

*Towards the Understanding of Karl Marx: A Revolutionary Interpretation.* By Sidney Hook. (New York: John Day. 1933. Pp. xiv, 347. $2.50.)

Disclaiming any desire "to revise Marx or bring him up to date," the author seeks rather to emphasize the rôle of activity in Marxism, "as contrasted with the mechanical and fatalistic conceptions" which prevail in orthodox Marxian circles. He advances the view that Marxism is primarily a philosophy of social revolution rather than an objective scientific analysis of an inevitable capitalistic cataclysm. He discards all interpretations except Leninism as one-sided emphases arising from a failure to understand that in his various writings Marx addressed

himself to particular current situations. The author finds the essential principle of Marxism in the theory that the state is the agency for class domination; from this it follows that no fundamental social change is possible without the overthrow of the state.

The revolution cannot be made at any time, however. There must be a revolutionary situation and a revolutionary movement capable of taking advantage of it. In place of the well known Marxian criteria of the revolutionary situation, however, the author substitutes certain others—an economic crisis, dissension among the ruling classes and spontaneous unrest—which are not only present today but existed many times before in this country and elsewhere. His indices of the revolutionary situation are thus essentially cyclical where those of Marx were evolutionary. Furthermore, the author's revolutionary movement seems to move independently of and to have no basis in objective economic conditions. It is true that Marx felt that the revolutionary movement should lead and not follow economic developments; nevertheless his revolutionary movement was rooted in and ultimately conditioned by the objective economic situation and his criteria of the revolutionary situation were such as in themselves to contribute to the creation of a revolutionary movement.

The economic sections are, to the reviewer, the weakest in the book. The labor theory of value is defended as an abstraction applicable to reality when the proper assumptions are made, and useful in stating the objective of the workers' struggle; to the reviewer the discussion of this point seems a brilliant but sterile exercise in logic in defense of an obsolete theory. A sweeping attack on the unhistorical nature of orthodox economic theory unfortunately disregards entirely the views of such men as John Stuart Mill and Alfred Marshall.

A brief but interesting discussion of the future of dialectic advances the view that the dialectic principle is the only Marxian doctrine which is not historically conditioned; it will continue to operate under communism, but on a more elevated plane. Problems will continue to arise; social change will continue to take place, but "through coöperative conflict, not anti-social class struggles." Marx did not expect communism to eliminate unhappiness but to do away with the inhumanity and degradation which capitalism causes.

The book is an important and valuable interpretation of Marx and is an excellent antithesis to prevailing mechanical and fatalistic interpretations. But in minimizing the objective scientific aim of Marx the author has swung too far in the other direction and has made Marx much like the Blanquist revolutionaries Marx so vigorously attacked. There is need for a synthesis which, while emphasizing the activist Marxian element, will pay more attention to the objective economic

conditions which Marx felt must ultimately govern any revolutionary activity.

JOSEPH J. SENTURIA

*Encyclopaedia of the Social Sciences*

*Reine Theorie Monopolistischer Wirtschaftsformen.* By ERICH SCHNEIDER. (Tübingen: Mohr. 1932. Pp. 175. RM. 14.40.)

This *Pure Theory of Monopolistic Institutions* is the work of a young economist who proves himself, by the economy of his style and by his remarkable familiarity with American, English, French and Italian as well as German authors, a mature scholar. Cournot's reflections on monopoly were more or less in the realm of "l'art pour l'art," and it is only in our day, when the clash of the concerted action of producers and the state introduces daily problems which an economic theory based on the classical conception of "homo economicus" and free competition can never solve, that the significance of Cournot's work has received its deserved though timely recognition.

Under the heading of *unilateral monopoly* three cases are analyzed: (1) absolute monopoly of a commodity demanded by a competing mass of consumers; (2) an economy in which the *production* of all goods is monopolized, but in which all the original means of production compete freely; (3) an economy in which free competition underlies the production of all commodities but in which all the original means of production are monopolized. The next case is the *bilateral monopoly*, in which two monopolists face each other as buyers or sellers, such as a trade union and an organization of employers.

The problem of *universal monopoly* centers on the question whether in such an economy a state of stable equilibrium is conceivable, *i.e.*, whether, to speak with Edgeworth, "things would always seek their level" or whether such an economy would be bound to suffer from violent fluctuations and convulsions that periodically throw the machinery completely out of gear. Dr. Schneider believes that our economic organization is already showing a definite trend toward just such universal monopoly, but contends that a state of stable equilibrium is not inconceivable as long as all monopolists adhere to strictly peaceful economic methods and preserve economic independence in their monopolistic position. This contention is in opposition to Edgeworth's famous remark that "among those who would suffer by the new régime (universal monopoly) there would be one class which particularly interests the readers of this journal (Edgeworth refers to the *Giornale degli Economisti*), namely, the abstract economists, who would be deprived of their occupation, the investigation of the conditions which determine value. There

would survive only the empirical school, flourishing in a chaos congenial to their mentality."

If an equilibrium is reached in an economy of universal monopoly, all monopolists may obtain profits. There remains only the problem as to the investment of such profits. Any reinvestment of monopoly profits in the monopolized industries would increase their output and thus necessarily upset the status of equilibrium which had been reached. The monopolists in an economy characterized by universal monopoly can not possibly reinvest their profits without wrecking their own boat. Their only escape lies in the search for fields where free competition still prevails. It is exactly this reflection which found its expression in the Marxian doctrine of the inherent tendency of capitalistic countries to show a trend toward "economic imperialism" as soon as the trustification at home had made sufficient progress to invite the expansion into virgin territories.

The last part of the book deals with the case in which a good is produced by several competing producers, whose number, however, is so small that each competitor's part in the total output is substantial enough to enable him to have an effective influence on the price-making process of this commodity. This conception has been called duopoly, or more correctly, "polypoly" or "obliogopoly," indicating that the numbers of competing monopolists may exceed two. As Schumpeter[1] remarked, "This case is not only more important practically than either of the cases of 'free, pure or simple' competition on the one hand, and of single monopoly on the other, but also the more general one in a theoretical sense." Edgeworth criticized Cournot's contention and maintained that dual and multiple monopoly, or generally the case in which firms can and do take account of their own influence on price, cannot yield a stable equilibrium. Schneider defends Cournot against Edgeworth's "now the demolition of Cournot's theory is generally accepted" by supporting Schumpeter's[2] surmise that a stable equilibrium may be secured in all cases in which each party reacts on what the other does, simply by adjusting the quantity it is willing to supply.

Schneider's analysis of the different cases of monopoly restricts itself to a conception of a static economy, but he promises to attack the problems of monopoly in a dynamic economy in a second book, which will be awaited with the expectation justified by the reputation that this first book should command for him.

ROBERT WEIDENHAMMER

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[1] In "The Instability of Capitalism," *Economic Journal*, 1928, p. 369-70.

[2] In the preface to Zeuthen, *Problems of Monopoly and Economic Warfare*, London, 1930.

*La Vie Chère au XVI<sup>e</sup> Siècle: La Response de Jean Bodin à M. de Malestroit, 1568.* Edited by HENRI HAUSER. New ed. (Paris: Armand Colin. 1932. Pp. lxxx, 134. 25 fr.)

Sixteenth-century Europe was visited by a prolonged and severe economic crisis, characterized by an almost continuous increase in the cost of living. As is often the case during a crisis, it stimulated discussion of economic problems. In order to meet the people's complaints, a counselor of the French Court, Seigneur de Malestroit, in March, 1564, had presented a memorandum to the King in which he tried to explain that prices in France had in reality not changed, but had remained stable for three centuries. The only thing which had changed in his opinion was the denomination of money. "The metals being the true and just measurement of the high or low prices of goods, the debasing of the monetary standards would not have adversely affected the subjects of France, if their rebellious temper had not led them to refuse currency at the value fixed by the lawful will of the sovereign." Thus Malestroit had tried to explain away the fact that the cost of living had increased, while at the same time defending the inflation of money. As a proof of his contention he showed that the price of velvet had remained the same for four centuries. This was fairly true, but it proved nothing.

In 1568 the *Response* was published to the *Paradoxes* of Malestroit. Its author was Jean Bodin. Of the original edition only two copies are left today. Both are in the possession of the Bibliothèque Nationale at Paris. A later edition, differing from the original, was published in 1578. It was from this later edition chiefly that Bodin's work became known. This had led to a great deal of confusion in regard to the date of the *Response*. Professor Hauser of Sorbonne University has undertaken the meritorious task of making available in this reprint the text of the original edition which he has supplemented with an admirably written introduction.

He shows how Bodin had placed his finger on the fundamental cause of the rise in the price levels of Europe, when he ascribed it to the influx of gold and silver which had followed the discovery of America. And indeed, Bodin had expressed a novel thought when he said that "the principal and almost only cause, which nobody heretofore has mentioned, is the abundance of gold and silver which today is greater in the kingdom than at any time in the past four hundred years." And Professor Hauser reminds us that it was Bodin, and no other, who first formulated the quantity theory of money in the statement, "Price, other things remaining equal, varies in inverse ratio to the quantity of the means of payment." The honor of having first pointed to the connection between the quantity of gold and silver and the price level, thus

belongs to Bodin. In a slightly different way he expresses the thought, "The principal cause of high prices is always the abundance of that in which the price of goods is measured."

Bodin also was among the first to visualize the need for stable money. On the other hand, Professor Hauser rightly regrets that Bodin failed to develop his theory further to the point of showing how an accelerated circulation of money has the same effect as an increase in the supply of money, but obviously "Bodin had not read Irving Fisher in 1568." Bodin also failed to formulate the famous law, discovered by Copernicus and attributed to Gresham, but he does show how in Belgium bad money replaced good money. In regard to currency inflation, Bodin makes certain comments worth listening to even today. After calling inflation a cause of unsettled business conditions, he says, "Temporarily, inflation may appear as a remedy for the embarrassment of the Treasury, and governments avail themselves of this means of raising revenues without increasing taxes, but this imposture is pure fraud. . . . The Republic and the poor people are ruined thereby, and there remain only the hoarders, moneyed interests, financiers and usurers who gain from it."

Professor Hauser describes the profound influence of Bodin on early economic thought. His theories greatly influenced British politics in the days of Queen Elizabeth. For a long time to come, Bodin was among the most quoted authorities on monetary questions. His essay was also published in Latin; in 1624 it appeared in German. To the American student it is available in A. E. Monroe's *Early Economic Thought* (pp. 121-141).

Bodin had certain shortcomings: his appeal for exchange restrictions is in strange contradiction to his sane and able defense of foreign trade. On the other hand, Bodin possessed a remarkable power of observation, critical analysis and original thinking. His contribution to the problems of money and price has laid the foundation to much of present-day economic thought. His treatise is also a valuable source of our knowledge of the economic revolution which took place during the sixteenth century.

Professor Hauser deserves much credit for having made available and so ably edited the work of one of the most outstanding early economists.

JOHN RICHARD MEZ

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*Nuova Collana di Economisti: Stranieri e Italiani.* Edited by GIUSEPPE BOTTAI and CELESTINO ARENA. Vol. I. *Storia delle Teorie.* Vol II. *Economisti Italiani del Risorgimento.* Vol. V. *Dinamica Economica.* Vol. VI. *Cicli Economici.* (Turin: Un. Tip. Ed. Torinese. 1932. Pp. xxiv, 562; xxvii, 496; xii, 440; xxv, 364. L. 55; 50; 50; 45.)

In this collection of some of the more important economic writings of the last half century each of the twelve volumes is devoted to a special branch of economics[1] and consists of the translation of some important foreign work or the reproduction of a notable Italian essay. In some cases, complete works are reproduced, in others, only parts. But it is the purpose of the editors so to select the materials that the whole will be a well integrated treatise as well as an anthology of modern economic thought.

The editors deserve high praise for their judicious selection of materials and their catholicity of taste. All schools of thought are somewhere represented in the collection, from Pareto and Edgeworth to Schmoller and Marx. Considering the vast amount of good economic writing since the publication of Ferrara's *Biblioteca dell' Economista*, it need scarcely be said that any critic can see places where his judgment would not coincide with the editors'. For instance, Marshall is represented by *Industry and Trade* and not by the *Principles*. French economics is represented only by Sorel. The theory of international trade is not given special treatment, although certain aspects of the exchange problem are discussed in the volume on money. Many economists, especially those of the institutional persuasion, will feel that too much emphasis has been placed on theoretical works, even in fields where historical and descriptive studies have predominated. For example, the volume devoted to *Sozialpolitik* contains nothing but Pigou's *Economics of Welfare*. The editors recognize that the emphasis on theoretical works may be criticized, but they contend that other types of essay are of too local and too transitory interest, a contention which may have more force in fascist Italy than, say, in the United States.

The first volume, on doctrinal history, contains Cannan's *Review of Economic Theory* and a long article by Professor Del Vecchio on "old and new economic theories." The latter is included as a corrective to the "excessively insular conception of economic theory" exhibited in the former. Del Vecchio's paper does ample justice to the claims of the mathematical school, especially the Italian branch. It is a redaction of essays previously published in the *Giornale degli Economisti* and elsewhere. Unfortunately, parts of the paper retain too much of their original character as book reviews or occasional essays. Thus, the glowing tribute to Edgeworth, combined with criticism of the vagaries of arrangement of his *Papers*, was proper enough in a review in 1925, but

[1] The topics are, by volumes: (i) history of theory, (ii) Italian economists of the Risorgimento, (iii) economic history, (iv) pure economics (static theory), (v) economic dynamics, (vi) cycles, (vii) industrial organization, (viii) money, (ix) public finance, (x) social policy, (xi) labor, and (xii) sociology. Additional volumes may be included later. Only the four listed above have appeared thus far, although the tables of contents of the others have been announced.

certainly leaves the reader not familiar with Edgeworth's work considerably in the dark as to the precise reasoning involved in his analyses, although he might well be inspired to read the originals. In the discussion of cycle theories, the bibliographical data are meager, although the problem is well stated. The discussions of certain other phases of recent economic theory are more useful from the critical and bibliographical standpoint than the other doctrinal histories. It is regrettable that Professor Del Vecchio did not undertake to write a more complete essay. The combination of the writings of Professors Cannan and Del Vecchio still leaves certain aspects of theory untouched and passes over some of the more heterodox schools of thought.

The economic literature of the Risorgimento as reflected in the second volume was more concerned with practical questions and broad political ideas than with economic theory. The essays collected should be of greater interest to the Italians of the new "Risorgimento" than to foreign readers. Ferrara's papers on banking and paper money in Italy, and some of his lectures here reprinted, are worth study. The other writers included are Cavour, Mazzini, and some less well known figures.

The fifth volume attacks the problem of economic dynamics from diverse angles. Schumpeter's *Theorie der Wirtschaftlichen Entwicklung* and Clark's *Overhead Costs* are the main part of the study.[2] Amoroso, in a brief article, summarizes his previous mathematical contributions to the theories of demand, cycles, and population. One wonders why the paper by Pantaleoni on syndicalism was reprinted here. It is scarcely theoretical and certainly does not represent the author at his best.

The volume on business cycles succeeds in stating the problem in well-organized fashion, although theoretical analysis has been subordinated to statistics. The only formal presentation of theory is the first chapter from Mitchell's *Business Cycles*. This is followed by a translation of Wagemann's *Einführung in die Konjunkturlehre* (1929), a briefer form of his *Konjunkturlehre* (1928), *Economic Rhythm* (1930). The briefer work shows better the relation of Wagemann's work to other writers. A bibliography of Italian writings on the cycle is appended by the translator. An able criticism of forecasting by Professor Bresciani-Turroni completes the volume. Basing his conclusions on the situation in Germany in the last decade, he points out the failure of the statistical forecasting methods, notably the Harvard Committee's, to indicate the actual changes in conditions. This inadequacy he attributes to two main causes, the unsatisfactory methods of dealing statistically with trend and seasonal elimination and to the far too simple theories of the cycle, which are implicit in the methods used, despite the denial in some instances

[2] The translation of Schumpeter's book has compressed certain portions, and several chapters of Clark's study have been omitted, with the approval of the authors.

that the forecasting devices used involve any distinct causal theory of the cycle. The author concludes that a successful forecast is possible only when all the factors in the situation are analyzed statistically in the light of an acceptable theoretical explanation of the cycle, which cannot be one of the simple theories placing all the emphasis on one or two aspects of the changing economic scene.

HENRY J. BITTERMANN

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## NEW BOOKS

BRESCIANI-TURRONI, C. *Inductive verification of the theory of international payments.* Pub. no. 1. (Cairo: Egyptian Univ. Faculty of Law. 1933. Pp. 112.)

CLARK, F. B. *The expansion of economic concepts.* (Dallas: Southwest Press. 1932. Pp. xv, 395.)

The material treated in this book is of a very extensive nature. Survey chapters are given presenting the development of the concepts of production, of economic laws, of market and normal price, of the parts played by the several factors of production, and of business cycle theory. In addition, there are rather elementary chapters on price, money, and credit, and on the working of the organized exchanges. The various chapters present a curious contrast. Some of the chapters dealing with the development of economic concepts must have been written for advanced students of theory; the chapters on price, money, and credit might be suitable for the student in elementary economics; the chapter on the organized exchanges with its long quotation from a pamphlet published by the Chicago Board of Trade presenting a detailed description of the sign language used on the exchange might be suitable for high school students.

In the chapters dealing with the development of economic concepts the author quotes Smith, Ricardo, Mill, Say, and others of the founding fathers frequently; but more often he gives excerpts from Gide and Rist. A brief and often only a desultory discussion of the views of the economists presented is then given. It is difficult to see where anything is added to what Gide and Rist have already done. In places the author does not seem to understand the views of the schools or authors he discusses. It is scarcely correct to say that the Mercantilists thought money the sole form of wealth or that the Physiocrats considered other forms of activity than agriculture parasitic. The author shows great industry but often fails in discernment or power of analysis.

EARL R. SIKES

FRISCH, R. *New methods of measuring marginal utility.* (Tübingen: Mohr. 1932. Pp. 142. RM. 11.40.)

At the position of equilibrium there is an equivalence between the marginal utility of a dollar and the marginal utility of a dollar's worth of any economic good included in the budget of an individual. Taking $p$ to represent the price of one of these goods, the commodity of comparison, the marginal utility of a dollar's worth of the commodity of comparison and consequently of the dollar will vary inversely as $p$; the marginal utility of the standard dollar will vary directly with the price level ($P$). Dr.

Frisch thus arrives at the equation $w(r) = \frac{P}{p} \cdot u(x)$, which means that for our individual who persists in the condition of equilibrium, the marginal utility ($w$) of the real, deflated income ($r$) is equal to the inverted price relative ($\frac{P}{p}$) of the commodity of comparison times its marginal utility, $u(x)$. [Dr. Frisch writes $w(r)$ for $w = f(r)$, and $u(x)$ for $u = f(x)$.] Substituting the symbol $a$ for $\frac{P}{p}$ we get $w(r) = a.u\ (x)$, or $a = \frac{1}{u(x)}.w(r)$. If $x$ is assumed as constant, $\frac{1}{u(x)}$ will be a constant. Given data which represent our individual as possessed of varying real income ($r$) under varying price conditions ($a$) but purchasing a constant amount ($x$) of the commodity of comparison, $a$ will be a function of one variable $r$, and the values of $a$ will bear a constant relation, $\frac{1}{u(x)}$, to the values of $w$ with respect to corresponding values of $r$. This makes possible the numerical expression of the extent to which the marginal utility of money varies with fluctuations in income for a given "equilibrium" individual. Dr. Frisch refers to this property of the marginal utility of money curve, as "money flexibility."[1]

The significance of developing a measure for money flexibility inheres in the fact that whereas it is meaningless to compare the marginal utility of money, or of anything else, for one individual with that for another, a comparison of money flexibilities is logically valid. As for the empirical significance of such comparisons, one must allow for the static premises underlying the method and the further approximations involved in applying it to actual data, as Dr. Frisch does in Section 4 of the monograph.

In Sections 5 and 6 he develops the "quantity variation method" and the "translation method" for arriving at a measure of money flexibility on the basis of budgetary data which does not provide time series reflecting varying prices of a commodity of comparison and varying price levels along with variations in income, as was the case with the first, the "isoquant method." The important condition for the application of these two methods, in addition to the axiomatics indicated for the isoquant method, is that at least two sets of budgetary data be available relating, respectively, to groups of the same economic class, so that their functions for the marginal utility of money and the marginal utility of the commodity of comparison will be identical. In Section 7 Mr. Frisch applies the translation method to United States material. Section 8 contains further theoretical elaboration relating to the determination of money flexibility for budgetary data. In Sections 9, 10 and 11 Dr. Frisch applies his theoretical results to a consideration of index numbers, the supply price of labor, and the determination of income tax rates in consonance, respectively, with five different principles of taxation.

LEO ROGIN

[1] Defined on p. 3, for a small interval of $r$ as distinguished from a point, as "the ratio between a small percentage change in marginal utility [of money] and the corresponding change in income.

Gangemi, L. ***Svolgimento del pensiero economico.*** **Tomo I.** ***Dalle origini alla scuola classica.*** **(Milan: Treves. 1932. Pp. xi, 357. L.20.)**

This treatise gives special reference to Italian economists in the development of economic doctrines. It is really in three divisions: The first division, embracing three chapters (45 pages), discusses the philosophy of economic thought with a decided stress upon the dynamic nature of economic doctrines and their interrelationships with all other phases of cultural development. In this preliminary discussion the author wisely lays the groundwork for the critical analysis to follow. There is, if the phrase be permitted, an emphasis upon emphasis. The ideas of every man and of every nation are shown to be but partly autonomous and to have their origins in the current and immediately preceding life and times. The fact that chronological, national parallels are indicated for almost every important economic doctrine distinctly characterizes the volume. The ideas of economics are shown as definitely coming from *somewhere* and, eventually, leading *somewhere.* The second division of the volume contains the next three chapters (128 pages) and covers pre-classical economic thought. The third division (176 pages) contains the last two chapters and takes up the classical school. All bibliographical notes and references are collected at the end of the chapters, which is bothersome to those unaccustomed to the practice.

American students of the history of economic thought will find this volume useful (1) because of the wealth of new bibliographical material dealing with, and the emphasis upon, Italian economists, (2) because of the segregation of the discussion along nationalistic lines, and (3) because of the emphasis given in the first three chapters upon the general development of scientific thought in economics.

Floyd F. Burtchett

Ghosh, P. C. ***The theory of profits.*** **(Calcutta: Univ. of Calcutta. 1933. Pp. xx, 442.)**

Haberler, G. ***Der internationale Handel.*** **(Berlin: Springer. 1933. Pp. xi, 298. RM. 9.60.)**

This treatise by a young Austrian economist, who is well known in this country through his book on index numbers, represents the first broad theoretical analysis of the field by a continental author. Emphasis is put on the monetary problems connected with the adjustment of the international balances of payment and the fluctuations of the rates of exchange. The popular purchasing power theory of Gustav Cassel is formulated in a refined method. The fluctuations of foreign exchange rates in periods of inflation and the much debated transfer problem are scrutinized.

Foreign investments, capital movements, capital flight, the wandering from country to country of huge liquid funds in constant fear of socialization, taxation or inflation are discussed; but here one would have expected a more detailed treatment.

The author wonders why economic theory has always upheld free trade and why the trade policies of most countries have usually been protectionistic and are so today more than ever. Economic theory is not discredited, however, simply because the practice disregards its advice. Free trade is the economic expression of liberalism, which opposes state

interference with the economic process. Today interference for social objectives is steadily growing (N.R.A.), but such "end of laissez faire" does not logically have to lead to a protectionist foreign trade policy. Free trade provides—due to the most advantageous costs incurred—the greatest possible social product for any given country. Intervention may then distribute this product to the different classes of the population according to the ideals of the party in power.

Certain cases in which protectionism is feasible undeniably exist. Dr. Haberler, however, adopts the point of view of F. Y. Edgeworth: "As I read it, protection might procure economic advantages in certain cases, if there was a government wise enough to discriminate those cases, and strong enough to confine itself to them; but this condition is very unlikely to be fulfilled."

For the American readers the chapters on the control of foreign exchange, on cartels and dumping and on the European technique of tariffs, quotas and embargos should prove especially valuable. The much discussed idea of tariff unions is held to be an utopia—and furthermore, only a detour to the really obtainable ideal of free international trade. In Dr. Haberler's words: "It would be better to get the bull by his horns and to abolish tariffs altogether than to dicker with tariff unions, preferential tariffs and other halfway measures."

ROBERT WEIDENHAMMER

HAYEK, F. A., editor. *Beiträge zur Geldtheorie.* (Vienna: Springer. 1933. Pp. 511.)

MISES, L. and SPIETHOFF, A., editors. *Probleme der Wertlehre.* Teil II. *Mündliche Aussprache über die Wertlehre im theoretischen Ausschuss des Vereins für Sozialpolitik 30. September 1932 in Dresden.* (Munich: Duncker und Humblot. 1933. Pp. 132.)

PIGOU, A. C. *The theory of unemployment.* (London: Macmillan. 1933. Pp. xxv, 319. $5.)

ROBBINS, L. *An essay on the nature and significance of economic science.* (New York: Macmillan. 1932. Pp. xii, 141. $3.)

The purpose of this essay by Professor Robbins of the London School of Economics is twofold. In the first place, it seeks to arrive at precise notions concerning the subject matter of economic science and the nature of the generalizations of which economic science consists. Secondly, it attempts to explain the limitations and the significance of these generalizations, both as a guide to the interpretation of reality and as a basis for political practice. The book falls into six divisions: (1) "The subject-matter of economics"; (2) "Ends and means"; (3) "The relativity of economic quantities"; (4) "The nature of economic generalizations"; (5) "Economic generalizations and reality"; (6) "The significance of economic science."

The first chapter is concerned with the seeking for a definition of economics; and, after a good deal of mere logomachy and threshing of old straw, the statement is made that "economics is the science which studies human behavior as a relationship between ends and scarce means which have alternate uses." Accordingly, more than material welfare must be considered and it is necessary to "focus attention on a particular aspect of behavior, the form imposed by the influence of scarcity." The Austrian theory of value, marginal utility, is thus brought in.

One of the main points of the study is the emphasis put on static

formalism and an alleged increase in logical precision. This, of course, makes economics a purely formal science of implications. The relations between economics and the other sciences are discussed in several chapters, while in another the historical school and the institutionalists come in for a sound drubbing. The significance of relativity and the nature of economic generalizations are also discussed at length. "What is the bearing of economic science on practice" is the subject of the final chapter. The apparent answer to the question seems to be, not much.

The valuation of the market and the working out of exchange economy, whatever their limitations may be according to Professor Robbins, are based at least on concrete and tangible things and thus are objective realities. One feels in reading this study that it is too metaphysical and subjective; and, although a closely reasoned and logical piece of work, it is a good example of logical gymnastics. Whether the argument is convincing or not is a question to be answered by each individual reader for himself. However, the English classical tradition, as modified by Mill and Marshall with some applications to social philosophy, has not been demolished.

George M. Janes

Souter, R. W. *Prolegomena to relativity economics: an elementary study in the mechanics and organics of an expanding economic universe.* (New York: Columbia Univ. Press. 1933. Pp. xiv, 171. $2.50.)

## Economic History and Geography

*New England's Prospect: 1933.* Edited by John K. Wright. (New York: American Geographical Soc. 1933. Pp. viii, 502. $5.00.)

The reader who picks up a volume published by one of the world's outstanding geographical societies may justifiably anticipate not only that the contents treat with things geographical, but that they be written by geographers. Hence in this instance one experiences surprise when scanning the list of contributors to find among the authors of the 29 articles, only four who may be classified as trained geographers. Others are economists, business men, historians, sociologists, political scientists, agriculturists, zoölogists or experts in other fields. This is significant. We may interpret it as an exemplification of breadth of view on the part of the American Geographical Society or recognition by this organization that perhaps one need not have been trained formally as a geographer to acquire a geographic viewpoint. Again the society may be merely expressing its scientific spirit, inasmuch as some of the articles reveal the fact that non-geographic elements frequently have been far more significant in the evolution of New England's economic life than the geographic.

The growth and vicissitudes of New England's population reflect "the geographical position, the character of topography and natural resources" of the region "and the inheritance of institutions and psychology brought from the Old World." Throughout the volume we are

made conscious of the part which an element of isolation has played in the economic and social destinies of the human activities. The handicap of the location of New England in "a corner of the country" combined with a rigorous climate and paucity of mineral resources, has been offset in part by certain sturdy qualities inherent in the settlers—not only among those who first opened up the country, but as well among more recent immigrants.

Notes of optimism are sounded in practically every article. But even though they are supported by statistical evidence, one cannot avoid the impression after reading the volume as a whole that the struggle for existence is severe and that the progress credited to New England's dauntless folk expresses the influence of "mind over matter" in a region where the favoring hand of nature is rarely seen.

The series of articles is stimulating, each offering a host of problems calling for solution and each presenting suggestions as to lines along which solutions may possibly be worked out. We have here in truth what the title announces, a *prospect*. The sequel stories to be written in the years to come will furnish evidence of man's ability to forecast the future. Should the record prove his predictions, then the world as a whole should profit greatly from the efforts here set forth.

Some repetition occurs, a situation difficult to overcome in a book of contributions by many persons. Although there is on the whole little to criticize in a volume of such excellence, a few items are subject to challenge.

The fact that "one-third of the nation's population dwells within 500 miles of Boston" (p. 52) does not necessarily imply a large market for Boston. Similar statements made for many other trade centers in the United States possess this common fault. In the program for research, urged on pp. 92-93, no suggestion is made relative to the need for investigating the proper ratio between workers' wages, dividends paid to stockholders, and the profits of the owners of industry. The discussion of "Agricultural production in New England" suggests occasionally that under certain seemingly adverse conditions "a decent living on farms" is not attainable. This may oftentimes be more a matter of viewpoint than of fact. It depends upon the measuring rod. Happiness and a living are not necessarily always expressible solely in monetary standards.

The text is well illuminated with many useful maps, graphs and tables. For New Englanders it is an especially valuable publication; while for residents of other portions of the United States it will commend itself as a pattern for similar investigations elsewhere.

EUGENE VAN CLEEF

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*Economic Development in Modern Europe.* By Clive Day. (New York: Macmillan. 1933. Pp. xiv, 447. $2.50.)

Professor Day describes his book here under review as an attempt at "something approaching the form of constitutional history. . . . This book aims to present for study the institutions of the two most important branches of production—agriculture and manufacture—and to suggest their relations to the political and social conditions of the times." It appears from the general arrangement of the material and from the list of questions appended to each chapter that Professor Day's new volume is a textbook intended primarily for classroom use. Even with these important limitations, the task of presenting the economic history of four great countries—England, France, Germany and Russia—covering a period of over two centuries within the restricted space of some four hundred pages is by no means an easy one. It is performed by the author with considerable skill, but at the price of certain simplifications which, in the opinion of the present reviewer, somewhat minimize the real value of his achievement.

The first and most important of these simplifications is the elimination from the narrative of the entire history of the war of 1914-1918. In accordance with the general plan, the history of every country is brought up to 1914, and then followed by one or two chapters on post-war developments. In these concluding chapters, to be sure, Professor Day makes references to some of the effects of the war, but these references are purely casual and, we feel, utterly inadequate. The Great War, as everybody knows, resulted not only in a wholesale re-drafting of frontiers and far-reaching political changes, but also left a lasting imprint on the economic institutions of the European countries. By excluding the economic history of the war from the scope of his investigation Professor Day has deprived his readers of a body of information which is essential to the proper understanding of the post-war problems.

This simplification is carried a step further in Professor Day's reluctance to discuss war debts and reparations which have so largely overshadowed the economic history of post-war Europe. War debts are hardly mentioned at all, while reparations are briefly discussed only in connection with the situation in Germany. Their effects upon England and France are completely ignored. It seems also unfortunate that the author did not set a definite time boundary to his narrative. Although the volume was published in March, 1933, and the preface is dated February of the same year, one gets the distinct feeling in reading the volume that it was largely completed in 1929 or 1930 and was not adequately revised since. Most of Professor Day's post-war statistics deal with the earlier part of the post-war period. His discussion of the reparation problem ends with the Hoover moratorium and does not mention

at all the Lausanne settlement reached in the summer of 1932. His outline of the British tariff policy does not mention the tariff of 1932, and he dwells on imperial preferences leaving his reader unaware of the all-important Ottawa conference. Indeed, after going carefully through Professor Day's book one may still remain ignorant of the fact that the world is passing through an economic crisis of unprecedented severity.

Turning to the earlier part of the volume, the reviewer cannot help regretting that Professor Day, in his discussion of the Industrial Revolution in England, did not allow a little space to the "newer view of the Industrial Revolution" so well presented by E. Lipson and his friends.

Few economists today would probably agree with Professor Day that the Dawes plan "met admirably the needs of the situation" (p. 279), just as few students of Russia would endorse his description of Sir Donald Mackenzie's volume as one of "the best general accounts of Russia in English" (p. 435), especially when he does not even mention such important recent books as those of Pokrovsky, Kondratev, D. S. Mirsky, Sir Bernard Pares, to quote just a few names. It is also most unfortunate that Professor Day seems to believe that Milyukov was the head of the first Russian Provisional Government (pp. 391, 398). The head of the first Provisional Government, of course, was Prince G. E. Lvov, while Milyukov was Minister of Foreign Affairs, an office he resigned on May 2, 1917. Prince Lvov continued to head the Government until July 7, when he was succeeded by Kerensky.

In spite of this criticism, the reviewer believes that Professor Day has performed a difficult task with a considerable degree of success. The book is written with an admirable simplicity and will, no doubt, prove a useful addition to the libraries of both teachers and students of economic history.

Michael T. Florinsky

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*A History of the Economic Institutions of Modern Europe.* By Frederick L. Nussbaum. (New York: Crofts. 1933. Pp. xvi, 448. Trade ed., $4.50; text ed., $3.25.)

In so far as the American student is concerned, Professor Nussbaum has made one of the most stimulating contributions to economic history that has been made in many a day. His book cannot fail to give new direction to this important study. As the author himself explains, he has taken with both hands from Professor Sombart's monumental accumulations, and without limiting himself to Sombart's materials or to Sombart's formulations, he has appropriated for the purposes of the American readers and students the main lines of the synthesis of economic history of Europe embodied in *Der Moderne Kapitalismus.*

The arrangement of Professor Nussbaum's book follows very closely that of Sombart's more lengthy work. Capitalism is only broadly described although emphasis is placed on what Professor Nussbaum regards as the essential elements of the capitalistic system. These elements are the use of money for mobilizing mechanical and human forces for profit purposes; and on the "spiritual" side, the development of a disposition to reorganize economic activity, rationalizing it with the view of securing the highest possible profits.

The book's brief introduction deals with the problems of economic history. Part I discusses pre-capitalistic economy which includes sustenance economy and the transition to exchange economy. Part II deals with the foundation of modern capitalism, and includes an account of technical developments and the organization of labor which promoted the growth of capitalism. Part III of the study indicates some of the conflicts between the mediaeval outlook and early mercantilism, and points out how the latter, with the increase in the supply of money, the development of instruments of exchange, and the transformation of the market, gradually triumphed over the former. Part IV deals with the dominant capitalism of the present and the recent past. A considerable part of this section is devoted to an analysis of the modifications which institutions and ideas have undergone as the result of the wide acceptance of the profit-seeking motive. It is pointed out, however, that even in a highly developed capitalistic culture there is by no means a complete conformity to any definite capitalistic pattern, and that perhaps the major part of enterprise still falls outside what may be called capitalistic economy. On the other hand, it is explained that capitalism has become so dominant today that it no longer has to meet the challenge of non-capitalistic institutions which have survived from the past. It is, instead, challenged by the future. Professor Nussbaum's opinion that part of the strength of capitalism is its capacity of self-criticism probably minimizes too much the vulnerability of all previous systems to the determined onslaughts of the critics that these systems produced.

From a broad viewpoint the book contains a subtle, but significant, contradiction. "A constant effort has been made to avoid substituting political or technical history for the record of the evolution of the modes and the institutions of economic action, of the ways of getting and spending." This implies that capitalism is a system of modes and institutions of economic action which is self-contained and independent of political forms. This approach, moreover, presupposes the existence of independent causation within "economic" institutions, and fails to explain fully the "spiritual" aspects of capitalism which Professor Nussbaum seeks to encompass in his study.

Professor Nussbaum's book will no doubt be identified with the re-

cent German criticism of the more orthodox treatment of European economic history. Because of its broad scope it possesses some advantages over many of the current translations of German works which deal with a more limited range of material.

Collis Stocking

*New York University*

*Studies in English Trade in the Fifteenth Century.* Edited by Eileen Power and M. M. Postan. (London: Routledge. New York: Macmillan. 1933. Pp. xx, 435. 21s.)

With *The Libelle of Englyshe Polycye* as their first text, but with the resources of the Public Record Office as the basis for their exegeses, six careful economic historians have produced a book which throws new light on English commercial organization and practice in the fifteenth century. The seven monographs are sufficiently integrated so that the reader finishes the book with an indelible picture of England's trade as a whole, as well as with fresh knowledge of detail concerning particular branches.

The quantitative covering essay by Professor H. L. Gray, with which the book begins, gives an initial unity to the studies. Based largely upon the enrolled customs accounts, this essay delineates the various types of foreign trade, computes the relative shares of each type conducted by denizens and aliens, and carefully assigns to English or foreign organizations their shares in the major forms of England's import or export trade.

Miss Power's essay on the wool trade lucidly describes the technique of the trade and the activities of the "Fellowship of the Staple." From a detailed study of the *Cely Papers* and other sources, the actual operations of the wool dealers have been reconstructed, and there emerges a vivid account of the woolmen, the woolpackers and the specialist merchants. Relying on *The Noumbre of Weyghtes* as her main source, Miss Power has also calculated the profits of the "Staplers," while from a study of credit and financial transactions, she has shown how these mercantile profits were collected.

Next, the penetration of northern markets by English merchants is analyzed (particularly in its political aspects) by Mr. Postan in his essay on "Anglo-Hanseatic Relations."

Proceeding counter-clockwise around the trade circle of which England was the center, Miss Wilson, in her two papers, has depicted the Iceland trade and the foreign trade of Bristol. Boldly defying the Hansa, English merchants early opened up direct trade with Iceland. Bristol, Lynn and Hull, by virtue of their locations, became the chief receiving ports for fish and the export points for cargoes of assorted

merchandise. But the Iceland trade was beset with difficulties, both political and financial, and the second half of the century saw the withering of a trade which had been rich in profit and romance.

Miss Wilson's essay on Bristol reveals the changes both in the direction and organization of trade, which the fifteenth century witnessed. With a busy, quasi-industrial hinterland and with convenient trade routes to Ireland, Gascony and Spain, Bristol had unique opportunities. Her merchants did not overlook these opportunities, and Miss Wilson has given a rich, detailed account of the many-sided trade of the west country metropolis.

Thus England's trade radiated in all directions; and it is because the sampling essays have so well delineated the radii of the circle that Dr. Thrupp's fresh study of the grocers of London, as a sample of the distributive trade within England, has real meaning. As dealers *en gros*, the grocers' trade comprehended metals, dyes, wax, drugs and spices. But dealings in cloth, wool, wine, fruit or fish were not outside the province of the grocers, and Dr. Thrupp has convincingly shown that a very much larger degree of marketing freedom existed than has been usually recognized. This thesis does not deny a division of functions, but it does emphasize that police authority, rather than mercantile monopoly, was the desideratum of company control.

The last essay by Dr. Haward, which deals competently with the financial transactions between the Lancastrian government and the Merchants of the Staple, is followed by the edited "Tables of Enrolled Customs" from 1399 to 1482. The inclusion of this basic statistical material deserves special commendation; it is indicative of the methodology which underlies the whole book. Eschewing generalizations, seeking and finding quantitative evidence of institutional changes, the authors of this very sound book have translated at least a portion of economic history into exact expression.

E. A. J. Johnson

*Cornell University*

### NEW BOOKS

Angell, J. W. *Financial foreign policy of the United States.* (New York: Council on Foreign Relations. 1933. Pp. vi, 146.)

This is a report to the Second International Studies Conference on the State and Economic Life, held in London in May and June, 1933, and was prepared for the American Committee appointed by the Council on Foreign Relations. Financial foreign policy is defined as "those actions of the government which have influenced the exportation of American capital, either by encouraging or by restricting it, or which have been directed at its protection when once exported." Although tariff policy and governmental attempts to control the prices of certain commodities are intentionally excluded from the discussion, the field which remains to be

covered is a broad one. Over half of the report deals with our Latin-American relations, particularly with the countries of the Caribbean. The pressure of American business and banking interests has been, except in the case of Mexico, a factor of less importance in determining our relations with Latin America than is frequently supposed. In most cases American policy toward these countries was dictated by political or military considerations, and financial penetration was frequently a result rather than a cause of American policy. The brief discussion of our diplomatic efforts to protect American investments in Mexico is excellent. It points out in a very discriminating way that our State Department has come dangerously near to trying to impose upon Mexico our own interpretation of what is "due process of law."

The remainder of the report deals with the Chinese Consortiums, our attitude on the development of Asiatic oil deposits, the promotion of capital exports, the State Department's review of foreign loans, and our war debt and federal reserve policies as they have affected Europe. Professor Angell brings out clearly the inconsistency between our war debt policy and our tariff policy. Although practically all economists will agree with his criticisms on this point, many will feel that he is drawing a rather long bow when he says "there is evidently substantial ground for asserting that the American financial policies toward Europe which were adopted in the middle of the last decade cast in fatal mold the subsequent flow of events, which led with all the inevitability of a Greek tragedy to the present world collapse." Throughout the report runs the idea that America has no well integrated and consistent financial foreign policy and that those actions which comprise our policy have been taken with but little understanding or thought as to what their consequences would be.

FRANK WHITSON FETTER

ARMSTRONG, H. F. *Hitler's Reich: the first phase.* (New York: Macmillan. 1933. Pp. 73. $1.)

BINING, A. C. *British regulation of the colonial iron industry.* (Philadelphia: Univ. of Pennsylvania Press. 1933. Pp. xii, 163. $2.)

CHAPMAN, C. E. *Colonial Hispanic America: a history.* (New York: Macmillan. 1933. Pp. xvii, 405. $2.40.)

CHEN, G. *Chinese government economic planning and reconstruction since 1927.* (Shanghai: China Inst. of Pacific Relations. 1933. Pp. 56. 75c.)

CONOLLY, V. *Soviet economic policy in the East.* (New York: Oxford Univ. Press. 1933. Pp. ix, 168. $2.25.)

Covers soviet economic relations with Turkey, Persia, Afghanistan, Mongolia, Sin Kiang. There is a bibliography of eight pages.

CONSITT, F. *The London Weavers' Company.* Vol. I. *From the twelfth century to the close of the sixteenth century.* (New York: Oxford. 1933. Pp. 349. $8.)

DALGLIESH, W. H. *The Company of the Indies in the days of Dupleix.* (Easton, Pa.: Chemical Pub. Co. 1933. Pp. viii, 238. $2.)

DODD, A. H. *The Industrial Revolution in North Wales.* (New York: Oxford Univ. Press. 1933. Pp. xxxi, 439. $3.75.)

EINZIG, P. *The economic foundations of Fascism.* (New York: Macmillan. 1933. Pp. 168. $3.)

ENGELS, F. *Germany: revolution and counter-revolution.* Works of Marxism—Leninism, vol. xiii. (New York: Internat. Pubs. 1933. Pp. 155. $1.50.)

Fay, C. R. *Great Britain from Adam Smith to the present day: an economic and social survey.* 3rd ed. (New York: Longmans Green. 1932. Pp. xii, 482. $3.20.)

The new edition of this well known and useful book is enlarged by the addition of a section on literature on English economic history published since 1928, and by a short (pp. 442-451) but stimulating chapter under the title "A decade of rationalization, 1922-1932." It is rather a pity that economy of space prevented a fuller discussion of the material and the suggestive conclusion—"If western capitalism founders in our own time, posterity surely will give as its verdict, 'Suicide, whilst of unsound mind.' "

A.P.U.

Fay, C. R. *Life and labour in the nineteenth century: being the substance of lectures delivered at Cambridge University in the year 1919 to students of economics, among whom were officers of the royal navy and students from the army of the United States.* 2nd ed. (New York: Macmillan. 1933. Pp. viii, 308. $1.65.)

The first edition was published in 1920. Only verbal changes have been made.

Florinsky, M. T. *World revolution and the U.S.S.R.* (New York: Macmillan. 1933. Pp. xiv, 264. $2.)

This volume undertakes the difficult task of summarizing the attitude of the Soviet Union toward world revolution, a subject which has aroused heated controversy. The aggressive policy of the Bolsheviks in the early years of the revolution is quite compatible with conditions then existing. Intervention by hostile nations and ruthless civil war, combined with strict adherence to the dialectic of Engels and Marx (Lenin as yet had not superseded the latter as the "fountain of truth") inevitably led to the acceptance of the theory of "permanent revolution." The controversy in which Trotsky and Stalin were engaged for so long had its inception in the conflict between the theory of "permanent revolution" as expounded and pugnaciously adhered to by Trotsky and that of "socialism in a single country," a principle for which Stalin successfully fought. Failure of the revolutionary movement to materialize in other countries and serious economic difficulties at home led to a change in policy as early as 1921.

"Retreat" from an uncompromising and far-reaching program of socialization, as indicated in the adoption of NEP and a more liberal attitude toward the capitalistic world in general, did not necessarily indicate a permanent change in Soviet attitude toward socialism or world revolution. It was (and remains) a tactical move—an attempt to meet an immediate emergency. The uncompromising views of Trotsky, more particularly his continued adherence to a policy of "permanent revolution" led to his dismissal as Commissar for the Army and Navy in the autumn of 1926, to his expulsion from the Politbureau in October, 1927, and finally to his exile from Russia in the following year. Although in evidence much earlier, the policy of "socialism in a single country" was now more vigorously pursued; it was officially adopted as the Soviet policy. Moreover, the Five Year Plan, launched in the previous year was revised and emphatically pushed. Even the Third International (the Comintern), despite the language used in its official platform, abandoned its international revolutionary tactics and became an international body primarily concerned with

the defense of the Soviet Union. The Bolsheviks likewise sought more earnestly than before a rapprochement with the capitalistic nations and entered into pacts of non-aggression. Economic coöperation and peace became the cornerstones of the new Soviet foreign policy.

Dr. Florinsky describes and interprets in detail the events which dictated these changes. His account is replete with heroic incident. This volume, based almost entirely upon original sources, most of which are not available in English, should attract the attention of all students of the Russian scene.

FELIX FLÜGEL

FOSSATI, A. *Il pensiero e la politica sociale di Camillo Cavour.* (Turin: La Fed. Fascista del Commercio della Provincia di Torino. 1932. Pp. 163.)

This account of Cavour's attitude toward the "social question" is based on his speeches and letters and on some articles and on his pamphlet study of Ireland. Cavour thought fervently of increasing the well-being of the people. In his particular desire to increase capital or, failing that, to secure limitation of births, he plainly drew upon British economists whom he had read. He approved the spirit of association but had no good word for socialism and other radical movements. In England he had become acquainted with the "legal charity" of the Poor law of 1834 and was influenced to approve the principle of such aid in application to other countries.

ROBERT F. FOERSTER

FRANK, T., editor. *An economic survey of ancient Rome.* (Baltimore: Johns Hopkins Press. 1933. Pp. xiv, 431. $3.)

HAMILTON, H. *The Industrial Revolution in Scotland.* (New York: Oxford Univ. Press. 1932. Pp. ix, 300. $4.50.)

There has long been need for a well-rounded, fairly full description of the economic development of Scotland in modern times. This book deals excellently with the most important part of that period, from the early eighteenth century to 1880. The only similar work known to the reviewer, Dr. James Mackinnon's *Social and Industrial History of Scotland, from the Union to the Present Time* (1921), while good and of equal length, devotes fully half its space to social history and covers a somewhat longer period.

Dr. Hamilton's material is well organized; the style is generally clear and pleasing though in places overloaded with statistical details. After a brief introduction, three chapters are devoted to agricultural conditions preceding and during the agrarian revolution. The heart of the book (seven chapters) is evenly balanced between the textile and metallurgical industries. There is a chapter on transportation and a final one on banking. Intentionally, the author has paid little attention to commerce and practically none to human relations, his interest being in industrial evolution. All save the last chapter are based on original sources. The book contains ten plates, and a map of central Scotland before 1860. There is a rather brief index and a well classified bibliography (pp. 286-294). The printing has been carefully done.

No radically new points of view or conclusions are presented, but the book throws into strong relief the central facts of Scotch economic history. The following are probably the author's most important conclusions: (1)

The Industrial Revolution in Scotland falls into two periods, an earlier (from 1780 to 1830) characterized by the predominance of the linen and cotton industries, the application of machinery, and the rise of the factory system, and a later period (1830 to 1880) based on the supremacy of the metallurgical and coal industries and the growth of the railway. (2) The sudden collapse of the overseas trade of Glasgow (based on American tobacco) during the American Revolution caused the rise of cotton manufacturing. (3) This manufacture dominated the West of Scotland until it in turn was passed by the metallurgical industries. (4) The extensive building of canals and railways in the central lowland was an essential foundation for the later industrial expansion of the country.

Good brief accounts of the leading men and firms connected with industry are given throughout the book.

Other points emphasized are: The agrarian revolution, which is well described, began before the union with England, but was not completely established even in the Lowlands before 1825. The union injured most Scotch industries at first, but after 1745 prosperity and enterprise returned. The organization of industry during the domestic system and the Revolution assumed the same general lines as in England. Mining of coal on a large scale came after 1800, following the development of steam engines and canals and an increased demand for the new fuel. Neilson's discovery of the hot blast (1828) opened the boom period of iron production, which continued to 1870. Early developments in engineering and in transportation were similar to those in England. Few steam engines were in use before 1800, the great increase being from 1832 to 1850. Railway building reached its height in the forties; by 1850 the main lines in the industrial region had been finished.

RAYMOND CHAMBERS

HAMILTON, MRS. M. A. A. *Sidney and Beatrice Webb: a study in contemporary biography.* (Boston: Houghton Mifflin. 1933. Pp. 321. $3.50.)

HANTOS, E. *Memorandum on the economic problems of the Danube states (Austria, Hungary, Roumania, Czechslovakia, Yugoslavia and Bulgaria).* (Vienna: Mitteleuropa-Institut. 1933. Pp. 27.)

Presented by the Mitteleuropa-Institut (Vienna), the Union Douanière Européenne (Paris) and the Cobden Club (London) to the World Monetary and Economic Conference, London, 1933.

HARMAJA, L. *Effects of the war on economic and social life in Finland.* Econ. and soc. hist. of World War, translated and abridged ser. (New Haven: Yale Univ. 1933. Pp. 135. $2.)

HOCKETT, H. C. *Political and social growth of the United States, 1492-1852.* Rev. ed. (New York: Macmillan. 1933. Pp. xviii, 652. $3.)

HOOVER, C. B. *Germany enters the third Reich.* (New York: Macmillan. 1933. Pp. 243. $2.50.)

For the public which cares to discover what actually has happened in Germany the publication of this book is a piece of good fortune; but for readers who prefer an emotional approach to revolutions in general and economic changes in particular it will be a source of irritation. Professor Hoover is a realist. He comprehends the fact that, whether the western world likes it or not, a real upheaval has occurred in Germany. Although he is apparently out of sympathy with most of its manifestations, he never permits his feelings to color his careful picture.

The author has a rich background for an appreciation of revolutions. He served a long apprenticeship in Soviet Russia, and his *Economic Life of Soviet Russia* is known to students of soviet affairs as one of the two or three most useful accounts of the economic structure of that country. He realizes that the roots of National Socialism in Germany are deeper and more complex than the average uninformed foreigner, with his pat formula, "Capitalism or Socialism," can comprehend. He digs beneath the curious fact that National Socialism has united peasants and landlords in opposition to the former system, and he explores the economic basis of the anti-Jewish campaign which has been so effective in unifying the German people.

In his analysis of the changing economic program of the National Socialists the author's experience as a practising economic historian serves him well. He quotes from and appends to his volume the "Twenty-five Points" of the party program as they were drawn up in 1920—with their proposals for "breaking the interest slavery," nationalizing all trusts, establishing profit-sharing in large concerns, communalizing department stores, and expropriating land for public purposes—and describes the deviations from that program which the emergencies of power have produced. State ownership as a goal is shown to be receding, while state participation in management comes nearer. The author is one of the first to observe that after the first five months of power the Nazi Ministry of Economics took a perceptible turn to the right. The volume, with its exposition of an alignment of economic interests to which nineteenth century terminology and eighteenth century economic theory are no longer applicable, should have a corrective and salutary effect upon American opinion.

ALZADA COMSTOCK

HUNTINGTON, E., WILLIAMS, F. E. and VALKENBURG, S. VAN. *Economic and social geography.* (New York: Wiley. 1933. Pp. xi, 630. $3.75.)

"A textbook for colleges, normal schools, and schools of business. Climate, relief, and soil are described, as well as vegetation, occupation, products, social conditions and the distribution of population and cities." Exercises are appended to the chapters.

INNIS, H. A. and LOWER, A. R. M., editors. *Select documents in Canadian economic history, 1783-1885.* (Toronto: Univ. of Toronto Press. 1933. Pp. viii, 846. $5.)

This volume and its predecessor on the years before 1783, edited by Professor Innis and published in 1929, represent the nearest extant approach to an economic history of Canada up to 1885. Originally intended as materials for training Canadian undergraduates in the method of their own economic history, they can be made highly serviceable as guides to the character of, and sources for, Canadian economic life by other students who are willing to master their organization of materials and references. The volume under review is distinctly more usable as a work of reference than its predecessor because of its index, but, like it, would be the better for two or three maps.

Professor Lower is responsible for Part 1 (1783-1850), and he groups his materials around the lumber and fish which were the staples of the St. Lawrence basin and the Maritime Provinces. His materials are drawn from archives, government reports and early printed sources, and they

form a thin, if varied, fabric, so that opportunity is afforded for the critical, illuminating, and often astringent comment at which the editor excels. He dextrously illustrates colonization and settlement, communications, trade and industry, economic policies, and monetary and financial problems. One of the best sections concerns the canal and waterways rivalry of the United States and Canada.

Professor Innis' task (1850-1885) is more difficult, because of the more intricate economy and because of the wealth of materials which his remarkable erudition commands. His solution is frank abandonment of the documentary method in favor of a comprehensive, well-knit system of bare, business-like, topical essays with which he reconstructs the economic edifice of the St. Lawrence basin, the Maritime Provinces, Western Canada and British Columbia. His footnotes constitute a topical bibliography for the economic history of the period. He builds his scheme around steam navigation and railways at the time when wheat was becoming the Canadian staple. Innis, like Lower, is distinguished among Canadian historians by alertness to analogies with the United States. The book is successful; but, the economic scene having proved almost too complex by 1885, one wonders whether the scheme can be pursued for the subsequent years in a third volume. At any rate, the chances seem good that Innis may be able soon to crown his work of the last fifteen years with an economic history of Canada. Many studies remain to be made, as this volume often reveals, but the progress since 1920 has been great.

J. B. Brebner

McClure, W. *World prosperity as sought through the economic work of the League of Nations.* (New York: Macmillan. 1933. Pp. xxxix, 613. $4.)

MacCorkle, S. A. *American policy of recognition towards Mexico.* (Baltimore: Johns Hopkins Press. 1933. Pp. 119.)

Mortara, G. *Prospettive economiche, 1933.* 13th ed. (Milan: Univ. Bocconi. 1933. Pp. xvi, 631. L. 50.)

O'Connor, H. *Mellon's millions: the biography of a fortune.* (New York: John Day. 1933. Pp. 458. $3.)

Patterson, E. M. *American policy in the Pacific.* Annals, vol. 168. (Philadelphia: Am. Acad. of Pol. and Soc. Science. 1933. Pp. v, 274. $2.50.)

Pirou, G., and others. *Le crisi del capitalismo.* (Firenze: Sansoni. 1933. Pp. vi, 198. L. 15).

Pitigliani, F. *The Italian corporative state.* (London: P. S. King. 1933. Pp. xxv, 293. 15s.)

Pokrovsky, M. N. *Brief history of Russia.* Vol. 1. Translated by D. S. Mirsky. (New York: Internat. Pubs. 1933. Pp. 295. $2.50.)

Richards, G. R. B., editor. *Florentine merchants in the age of the Medici: letters and documents from the Selfridge collection of Medici manuscripts.* (Cambridge: Harvard Univ. Press. 1932. Pp. x, 342. $4.50.)

This volume essays the dual task "of illustrating the scope of the Selfridge collection for the benefit of students . . . not familiar with its wealth, and of throwing light on the business methods and commercial activities of a period in Italian history hitherto largely unexplored from the economic point of view." The first aim is admirably achieved in the compact foreword and introduction, and in Appendix C. It would perhaps be more accurate to call Chapter 2, "Florence under the Medici," the introduction.

The main body of the work consists of letters and documents, translated with great talent and industry from difficult early Italian manuscripts. How difficult is apparent even from the well-preserved pages reproduced photographically, and from the glossary of commercial terms. Each of the five chapters or sections has its own introductory note, and numerous footnotes to the translated text clear up questions such as measures of value or quantity, obsolete terms and obscure references to persons or events. Chapter 3 is a series of letters written by one Maringhi in Constantinople to various people in Florence in 1501-2. Next comes an inventory of Maringhi's possessions after his death, bankrupt, in 1506. This section and the next, letters of Raffaello di Francesco de Medici in 1520-21, seem to the reviewer less valuable than the one already mentioned and the final two, which present bills of exchange, articles of association, etc.

There are a few slips, most of which will doubtless be covered by a sheet of errata already announced. On page 50, Constantinople falls in 1452 instead of 1453. More important to some readers, and less likely to be corrected, is the misplacing of Novibazar, which is neither a "little hamlet," "not far" from Ragusa (p. 93) nor (p. 296) "a small village 40 miles from Raugia" (Ragusa). It is and was a sprawling, ugly town over 100 miles from Ragusa as the crow flies and at least 150 by the road across the mountains used since Roman times. From the papers here presented it would appear that the Florentine merchants preferred the land route from Ragusa to Constantinople even after 1500, and that the Venetians made copious use of it. The friendly and confident relations of the Medici representative at Constantinople with the Ottoman government are interesting.

A brief review cannot undertake to summarize the multitude of facts about trade and business organization revealed at first hand by painstaking and talented selection from a mountain of materials. The recital, as here translated and furnished with "connective tissue" by the editor, gives a picture in detail of the Florentine Levant trade shortly after the discoveries of Columbus and Vasco da Gama. There is a growing interest in sixteenth-century Italian business, evidently due in part to a realization by economic historians that the mass of recent work on German and Spanish institutions is not self-explanatory. The book here discussed will take its place among the indispensable items of the literature on the origins of modern capitalism.

M. M. Knight

Rogers, J. H. and Jackson, G. *The position of the United States in the World Economic Conference.* Econ. ser. presentation no. 28. (Chicago: Univ. of Chicago Press. 1933. Pp. 13. 15c.)

Rörig, F. *Mittelalterliche Weltwirtschaft: Blüte und Ende einer Weltwirtschaftsperiode.* (Jena: Fischer. 1933. Pp. 48.)

Up to the present, economic historians seem to have held that the industries and trade of mediaeval cities were based largely on an economy of self-sufficiency under which the cities emphasized their own industries and controlled the economic activities of their immediate environs. Rörig shows that this conception is not borne out by the facts. On the contrary, the economic policies of the cities were adjusted to the demands of foreign trade on a large scale. The "quality hunger" of the consumers, as Rörig expresses it, stimulated the exchange of goods over a far-flung area. The urge of the

Occident to expand its economic purview was perceptible even before the age of discoveries. Rörig begins his treatment with a period following 1200 when merchants began to reduce their business to writing. The power of the Turks hampered overland trade expansion. This led to the attempts to circumvent them by using marine thoroughfares. The discoveries which later followed were a concomitant of this desire for economic penetration. At a later period the growth of dynasties fostered a nationalistic spirit which put an end to the preëminence of the trade of the mediaeval cities.

William F. Hauhart

Schirokauer, A. *Lassalle: the power of illusion and the illusion of power.* Translated by Eden Paul and Cedar Paul. (New York: Century. 1932. Pp. 320. $5.)

Schirokauer's *Lassalle,* first published in German in 1928, is now available in a competent English translation. It is a vivid and stirring life story, brilliantly told. The book, like the life, is episodic, impressionistic, colorful. On the whole it seems a just appraisal. Had Ferdinand Lassalle the labor agitator and socialist never existed, the philosophical adventures of his mind, the romantic escapades of his heart and the towering phenomenon of his ego would have given full warrant for biography. Nor is Schirokauer's life-story merely that of Lassalle the radical; the amours, the dialectic, the childish conceit, all are included.

Lassalle was a Jew. His father, Chajjim Wolfssohn, born in Upper Silesia, early moved to Breslau where he became a wealthy merchant and a Prussian citizen and re-named himself Heyman Lassal. In 1825, Ferdinand "das Wunderkind," was born. Ferdinand, after a trip to Paris, completed the civilization of his name—Lassal became Lassalle. Then for two brief decades Lassalle, a frail, handsome bundle of nerve and brain tissue, powerfully implemented for expression, vocal and written, zoomed cyclonically about Germany, stirring up the working-classes; irritating with amazing self-conceit those who crossed his path; exuding legal and philosophical works which brought praise from Savigny, Humboldt and Hegel; occasionally abandoning the subjugation of the state to subjugate the ladies; passionately throwing himself into the cause of political reform that history might point to a reform privileged to have a Lassalle for its leader; organizing a kingdom of workers that Lassalle might be its king, until, mortally pierced in a love-duel, Lassalle was dead at thirty-nine.

Two years before his death, he lectured before a workmen's association in Berlin. This occasion has been called the birthday of German socialism and its author hailed as the father of German social democracy. In 1863 the Leipsic Workingmen's Association requested Lassalle to outline for it a policy and a program. His suggestions resulted in the formation of the General Union of German Workers (Allgemeiner Deutscher Arbeiterverein) which was destined, with re-inforcements from followers of Marx and Engels, to grow into the powerful Social Democratic party. So dominated was Lassalle by the "illusion of power" that he planned an alliance between his "kingdom of workers" and Bismarck's kingdom of junkers against the bourgeoisie. With this alliance, he, Lassalle, would step into the shoes of Bismarck. The state would belong to the working class. Since the working class already belonged to Lassalle— to him obviously would

belong the state! He would be a socialistic Caesar. He was out-manoeuvered by the Iron Chancellor because Bismarck had the substance of power whereas *"das Wunderkind"* had only the illusion of it.

It was only after Lassalle's death that the German national unity which he so ardently desired became a reality. And now! How the ghost of Lassalle must writhe at the phenomenon of Hitler, anti-socialist, anti-republican, anti-semitic—inscrutably making real the dream of power which to Lassalle—socialist, republican and Jew—ever remained a dream.

PAUL F. BRISSENDEN

SOULSBY, H. G. *The right of search and the slave trade in Anglo-American relations, 1814-1862.* (Baltimore: Johns Hopkins Press. 1933. Pp. 185.)

VILJOEN, S. *The economic tendencies of today.* (London: P. S. King. 1933. Pp. 251. 10s. 6d.)

WALKER, E. R. *Australia in the world depression.* (London: P. S. King. 1933. Pp. xi, 219. 10s. 6d.)

WELLS, H. G. *The shape of things to come.* (New York: Macmillan. 1933. Pp. ix, 431. $2.50.)

*The colonies.* Policy rep. no. 6. (London: The Labour Party. 1933. Pp. 22. 2d.)

*Economic reconstruction legislation of 1933.* (New York: National Industrial Conference Board. 1933. Pp. xii, 214. $2.50.)

*New Zealand: local authorities handbook.* No. 8. (Wellington: Census and Statistics Office. 1933. Pp. viii, 314. 7s. 6d.)

*Poland: concise statistical year-book.* 3rd year. (Warsaw: Bureau of Statistics of the Polish Republic. 1933. Pp. xviii, 170.)

*Summary of the fulfilment of the first Five-Year Plan for the development of the national economy of the U.S.S.R.* (Moscow: State Planning Commission of the U.S.S.R. 1933. Pp. x, 296.)

## Agriculture, Mining, Forestry, and Fisheries

### NEW BOOKS

BLACK, J. D. *Research in agricultural income: scope and method.* Bull. no. 6. (New York: Social Science Research Council. 1933. Pp. 158. 70c.)

————. *Research in farm labor: scope and method.* Bull. no. 16. (New York: Social Science Research Council. 1933. Pp. 84. 60c.)

CASE, H. C. M. *An analysis of farm leases for the corn belt and wheat belt states.* Rep. of Farm Lease Committee of Financial Section, American Life Convention, St. Louis, October, 1932. (St. Louis: American Life Convention. 1932. Pp. 63.)

GEE, W. and TERRY, E. A. *The cotton coöperatives in the southeast.* (New York: Appleton-Century. 1933. Pp. xiii, 271.)

HEYMAN, L. *The new aspect of the oil problem.* Translated from the French ed., rev. and enl. (London: Petroleum Times. 1933. Pp. 112. 3s. 6d.)

The thesis of this little book is that the oil problem, which only a few years ago was a problem of anticipated scarcity, with a world-wide struggle for undeveloped fields, has recently become one of finding markets for an over-supply, with a practical disappearance of all fear of imminent exhaustion of the resources. The author traces the development of aggres-

sive oil imperialism, from the end of the nineteenth century, an imperialism in which great oil companies were backed by the various governments, particularly by Great Britain and the United States. He then discusses the various factors which have largely dissipated the world-wide fear of an approaching scarcity of petroleum: progress in prospecting, in extraction and in refining; oil developments in various countries, particularly in Venezuela, Columbia, Persia, the Dutch East Indies, Roumania and Russia. The author points out that the soviet government of Russia, in its anxiety to secure foreign credits for its plan of internal development, will doubtless export large amounts of oil, whatever the price; and, from a brief summary of the generally futile efforts of the American states to restrict production, concludes that we shall have an exportable surplus of oil for some years yet. We now have a struggle, not for control of oil resources, but for markets; and the author brings a wealth of evidence to substantiate his belief that this will likely be true for many years—just how many years, he wisely refrains from predicting.

An excellent analysis, this is; and M. Heyman is doubtless correct in his general thesis. Scarcity of oil resources is not feared as it was a few years ago. Our long-run view, however, in the mind of the reviewer, should be much the same as before. Whether our oil production starts on its long decline in ten years, or, as recent estimates put it, in thirty years, is not a very important matter. The case for conservation still seems very strong.

John Ise

Hoover, T. J. *The economics of mining (non-ferrous metals): valuation—organization—management.* (Stanford Univ., Calif.: Stanford Univ. Press. 1933. Pp. 555. $6.)

Kolb, J. H. *Meeting the farm crisis.* (Chicago: American Library Assoc. 1933. Pp. 24. 25c.)

Leake, H. M. *Studies in tropical land tenure.* Reprinted from *Tropical Agriculture,* vol. ix, 8-12, vol. x, 1-6. (Port-of-Spain, Trinidad: Govt. Printing Office. 1933. Pp. 56. 2s.)

Lorge, I. *American agricultural villages, 1930: an analysis of census data.* Monog. no. 1. (New York: Am. Statistical Assoc. 1933. Pp. 133. $1.)

Murchie, R. W. *Land settlement as a relief measure.* Day and hour ser. no. 5. (Minneapolis: Univ. of Minnesota Press. 1933. Pp. 32. 25c.)

Nemirovsky, L. *Estructura económica y orientación política de la agricultura en la República Argentina.* (Buenos Aires: Menéndez. 1933.)

Pack, A. N. *Forestry: an economic challenge.* (New York: Macmillan. 1933. Pp. 161. $1.25.)

Timoshenko, V. P. *World agriculture and the depression.* Michigan bus. stud. vol. v, no. 5. (Ann Arbor: Univ. of Michigan. 1933. Pp. 123.)

Voskuil, W. H. and Sweeny, A. R. *Illinois mineral industry in 1932: a preliminary statistical summary and economic review.* Rep. of investig. no. 28. (Urbana: Ill. State Dept. of Registration and Educ. 1933. Pp. 66.)

*The agricultural situation in 1931-32: economic commentary on the international yearbook of agricultural statistics for 1931-32.* (Rome: Internat. Inst. of Agric. 1933. Pp. viii, 536.)

*Census of agriculture: the farm horse.* 15th census of U.S., 1930. (Washington: Supt. Docs. 1933. Pp. 84. 10c.)

*Census of agriculture: farm real estate values in New England states, 1850 to 1930.* 15th census of U. S., 1930. (Washington: Supt. Docs. 1933. Pp. 123. 10c.)

*Wheat studies.* Vol. ix, no. 9. *Britain's new wheat policy in perspective.* No. 10. *Survey of the wheat situation, April to August, 1933* (Stanford Univ., Calif.: Food Research Institute. 1933. Pp. 305-350; 351-387. $1; 50c.)

## Manufacturing Industries

*The Economic Development of the Cigar Industry in the United States.* By Willis N. Baer. (Lancaster, Pa.: Art Printing Co. 1933. Pp. 293.)

This study, originally a thesis for the doctorate at Columbia University, is a contribution to economic history and to economic method. With respect to the former, Dr. Baer has presented the development of a special field within an important industry from its colonial beginnings to the present day. As to the latter, he has maintained a balance between the purely factual, historical, technical aspects of the study and the social, economic phase in which the economist is interested. Dr. Baer has recognized what is often overlooked by the economic historian, that in a "barrage" of facts, "range" and "lift" are equally important with "weight."

The material is presented in four parts. Part 1 covers the developments prior to 1800; Part 2 treats the period from 1800 to 1860; Part 3 considers the years 1860 to 1910; and Part 4 is concerned with the more recent years. The author has not divided his subject matter into chapters. To have done so, as well as to have expanded into chapters some of the topics which have been treated as paragraphs, would have added to the completeness of the investigation. This too would have suggested a more adequate examination of economic inter-relations of the special branch with its general industrial field. The student is interested in comparative developments, integrations and combinations, substitutions due to price changes, shifts of capital and labor with changes in the cost structure, and similar questions.

The discussion of Part 2 furnishes another illustration of the evolution of industry, based upon increasing raw material and a rapidly growing demand for the finished product. In the period from 1860-1910 (Part 3) Dr. Baer traces the development of raw materials and industrial technique. He points to the influence which secrecy of processing, inconstancy of supply, and the changes in price, acreage, and taxation played upon the industry. The direction was given, to an important degree, by the influx of skilled workers from Germany and Great Britain in the

1840's and more especially after the Civil War. A noteworthy fact brought out is the fundamental importance of *simple* technical changes in the mechanizing of an industry, with its consequent labor agitation, organization, and finally, the disintegration which is rapidly taking place in that trade-union movement. This seems to bear out the truth of the statement made by organized labor that "the inventive genius has superseded skill. . . . Serve your three years apprenticeship and tomorrow a 'machine' like a spectre risen out of the earth over night confronts you, makes your patiently acquired skill unnecessary, and reduces you to the ranks of common labor, underpaid and overfilled" (p. 92). Such was the condition which called forth the American labor leader, Samuel Gompers, (whose name first appears in 1876 as secretary of the Cigarmakers Union, No. 144) and which brought "some light to his mind in realizing then . . . that it was futile for workmen to protest, or go on strike against, the introduction of a new machine, a new device, or a new tool" (p. 94). In these formative years it made a life-long impression upon this great leader as seen in the admonition, made in his last address in 1923, to the workers of his early occupation, "Accept the machine; organize the workers."

With respect to the economic interpretation of the study, Dr. Baer discusses the organization and concentration of the industry (pp. 99-107), tariff legislation and internal revenue regulations (pp. 108-134, 218-234), and imports and exports (pp. 134-142, 232-241), labor conditions and labor relations (pp. 209-218). A statement of particular interest is that York County, Pennsylvania, which has withstood the automatic machine, is an area where "manufacturers turn out a cheaper yet better quality product, workers are not organized, but seek regular employment at moderate wage" (p. 217). This conclusion is all the more provocative in that this area produced as much as one-fifth of the total "Class A" production in the United States. The author believes that "the tobacco industry as a whole may eventually become a government industry."

C. J. Ratzlaff

*Lafayette College*

## NEW BOOKS

Allen, G. C. *British industries and their organization.* (London and New York: Longmans Green. 1933. Pp. xi, 338. $2.60.)

Professor Allen has singled out some half dozen of the more important industries of Great Britain for an informative survey of significant changes in their economic position and organization. Particular emphasis is given to post-war developments and recent trends, without, however, an analysis of events since England departed from the gold standard

in 1931 or emphatic predictions for the future. The book is in no sense a review of British industries generally, since the industries of secondary importance and especially the newer and growing industries, with the exception of motors, are barely considered. More accurately it is a review of certain basic industries. But for these Professor Allen has presented an excellent and useful review constructed to a large extent out of the findings of the numerous special investigations of recent years.

Following a terse description of the rise of British industries before 1914 and a brief analysis of the post-war position of the staple trades, the author proceeds immediately to a more detailed consideration of the selected "representative industries"—coal, iron and steel, engineering, shipbuilding and marine engineering, the motor trade, cotton textiles, woolen and worsted textiles. He concludes with a brief discussion of British industry since the war and a survey of changes in the structure of industry. In the examination of these industries most of the discussion relates to such matters as the importance of the industry, inventions and early development, sources of raw material, location, markets, exports and imports, domestic and foreign competition, size of firms and production units, economies of specialization and mass production, combinations, control of prices and production, and marketing agencies. These matters are treated of more than descriptively. They are developed along with an analysis of conditions and forces making for change and impeding change.

In general the analysis shows that for one or more of numerous reasons —natural resources, technical factors, managerial methods, selfish individualism, small-scale production, changing demand, or other factors—Britain has lost her competitive advantage, particularly in the export market, for most of the staple products considered. The author believes (p. 286) that, "Great Britain cannot expect her older staple industries to regain their previous importance in her economic life. The solution of her problems must ultimately come from a redistribution of labour among other trades. But it is by no means easy to discover what those trades are to be. Nor is it possible to state with confidence that in the future the advantages of Great Britain as an industrial center will be sufficient to enable her to maintain a dense population at the standard of life to which she has been accustomed."

Robert D. Calkins

Fong, H. D. *Rural industries in China.* Industry ser. bull. no. 5. (Tientsin: Nankai Inst. of Economics. 1933. Pp. 68.)

Haynes, W. *Chemical economics.* (New York: Van Nostrand. 1933. Pp. xviii, 310. $3.25.)

Lemert, B. F. *The cotton textile industry of the southern Appalachian Piedmont.* (Chapel Hill: Univ. of North Carolina Press. 1933. Pp. xiv, 188. $2.50.)

Mack, R. H. *The cigar manufacturing industry: factors of instability affecting production and employment.* (Philadelphia: Univ. of Pennsylvania Press. 1933. Pp. xii, 140. $2.50.)

Schäfer, E. *Die Verbreitung von Elektro und Gasapparaten: eine marktanalytische Studie über die Absatzbedingungen in den 20 Verwaltungsbezirken Gross-Berlins.* (Stuttgart: Poeschel. 1933. Pp. vi, 83. RM. 5. 80.)

Smith, D. H. *The industries of Great London: being a survey of the recent industrialisation of the northern and western sectors of Greater London.* (London: P. S. King. 1933. Pp. xi, 188. 10s.)

Tayler, J. B. *The Hopei pottery industry and the problem of modernisation.* Reprint of a paper read before the Chinese Social and Political Science Assoc., Feb., 1930. (Peking: Yenching Univ. 1932. Pp. 28.)

*Facts and figures of the automobile industry.* 1933 ed. (New York: National Automobile Chamber of Commerce. 1933. Pp. 96.)

## Transportation and Communication

### NEW BOOKS

Chow, F. *Railroad warehousing service.* A thesis. (Philadelphia: Univ. of Pennsylvania. 1931. Pp. 241.)

Daggett, S. *Railroad consolidation west of the Mississippi River.* Pubs. in econ., vol. ii, no. 2. (Berkeley: Univ. of California Press. 1933. Pp. ix, 127-256.)

At a time when the national administration is directing attention once more to the railway problem, Mr. Daggett's monograph makes a most opportune appearance. The author proposes "to gather in one place, in a form convenient for study, a number of plans for the grouping of the railroads west of the Mississippi River under the provisions of Section 5 (of the Transportation act of 1920)." Consisting of seven chapters, the study devotes one to each of the four major systems, *viz.*, the Atchison, Topeka & Santa Fe, the Southern Pacific, the Union Pacific and the Missouri Pacific, one to the northwestern railroads and one to the remaining miscellaneous carriers. A final chapter points out the advantages which may be expected to accrue from a logical policy of consolidation and the difficulties which lie in the way of its accomplishment.

Only such history of each road is given as may be necessary to recall to the reader the characteristics of the system under consideration. Against this background is presented an outline of the Ripley and Interstate Commerce Commission plans of 1921. Detailed attention is then given to the merger and consolidation policies of the various roads during the years 1921 to 1931. Applications filed during the ten-year period are enumerated, and the motives actuating the carriers are analyzed in a critical manner. Finally the Interstate Commerce Commission plans of 1929 are presented for each system and their relationship shown to previous plans and to actual accomplishments. The concluding chapter lays stress upon the general difficulty of the whole problem, emphasizing the fact that no one solution is necessarily correct.

Avoiding any discussion of the history or legal difficulties of consolidation legislation, the treatise presents a clear and definite picture of the present status of carrier mergers in western territory.

D. J. Teviotdale

Fayle, C. E. *A short history of the world's shipping industry.* (New York: Dial Press. 1933. Pp. 320. $3.50.)

Miller, S. L. *Inland transportation principles and policies.* (New York: McGraw-Hill. 1933. Pp. xviii, 822. $4.)

MULLER, H. M., compiler. *Federal regulation of motor transport.* Ref. shelf, vol. xiii, no. 9. (New York: Wilson. 1933. Pp. 154. 90c.)
MUNDY, F. W., editor. *Mundy's earning power of railroads, 1933.* 28th issue. (New York: Jas. H. Oliphant. 1933 Pp. 729.)
*Inland waterways: the answer of the railroads to the Mississippi Valley Association.* (Washington: Assoc. of Railway Executives. 1933. Pp. 9.
*A yearbook of railroad information.* 1933 ed. (New York: Committee on Pub. Relations of the Eastern Railroads. 1933. Pp. 96.)

## Trade, Commerce, and Commercial Crises

*Problems in Foreign Trade.* By GEORGE B. ROORBACH. (New York: McGraw-Hill. 1933. Pp. xii, 512. $5.00.)

Mr. Roorbach's case book on foreign trade is another addition to the imposing list of Harvard problem books used in the Harvard Graduate School of Business Administration. The extensive references to leading texts which deal with the principles of foreign trade, as well as the citation of statistical material, make the book quite suitable either for the case method of study, or for use as collateral reading in a theory course. More than seventy cases are presented in a systematic and interesting manner to illustrate some of the fundamental principles of international trade, to indicate the various problems which confront business enterprises as a result of nationalistic trade policies, and to develop good business judgment in the choice of methods in carrying out international commercial transactions.

Trends in American foreign trade and finance since 1821 are set forth in Part I. This brief section of twenty pages is intended to furnish a background of international trade principles for the business man. Unless thorough use is made of the chapter references and the more complete bibliographical references in the appendix (*The Theory of International Prices* by J. W. Angell, an important contribution, is omitted), this section will provide a meager background of international trade principles. A comprehensive understanding of the balance of international payments of any country and of the possibilities of adjustment in various items is indispensable for judicious business decisions as regards foreign trade development and investments. On page 15, for example, American private long-term foreign investments are cited at their nominal value on December 31, 1931, without the slightest hint that these values had suffered a severe shrinkage. The immediate gains from high-pressure selling and liberal credit terms in foreign trade may be offset later by the loss of profitable markets and bad debts.

In Part II (about 200 pages) the cases involve factors in the development of foreign trade and are presented under the following subheads: the export of raw materials and foodstuffs; the export of manu-

factures; the marketing of services; foreign investments and foreign trade; government relations to foreign trade; importing and tariffs. The principle that high money wages do not necessarily result in high unit costs of production and inability to export is well illustrated. Other factors included in this section are natural and acquired advantages in international trade; the influence of transportation costs on commodity exports; the difficulties of international barter (United States wheat and Brazilian coffee exchange); the effects of cyclical depressions on exports and production; the problem of Russian trade relations; and governmental trade interference in the form of subsidies, quotas, protective tariffs, and trade promotion work. One case (pp. 86-91) which involves business policy with regard to foreign orders for cotton piece goods of special design does not seem especially pertinent to foreign trade problems. The three simple cases listed under foreign investment and foreign trade fail to indicate the complex banking system frequently employed to handle foreign investments and the indirect effects of foreign investments on trade relations.

Problems in the technique of export merchandising are treated in Part III (150 pages) under the three sub-heads of organization and methods, export market studies, and export coöperation and combination. An extension of the export technique, branch factories abroad, is presented in Part IV (27 pages). The remainder of the book (86 pages) is divided about equally between credit, financing, and exchange problems (Part V); and transportation and marine insurance (Part VI).

The reviewer was disappointed to see the subject of branch plants abroad treated so briefly and without any suggestion of their fundamental long-run effects on international trade. The reviewer also was annoyed to find frequently among the excellent questions appended to various cases some dealing with problems of public policy, since the author states in the preface that the book is written from the point of view of private business and not public welfare. An occasional shift to the public welfare approach on the basis of the background presented is not conducive to critical analysis by students of questions of public policy.

CLIFFORD L. JAMES

*Ohio State University*

*The French International Accounts, 1880-1913.* By HARRY D. WHITE. (Cambridge: Harvard Univ. Press. 1933. Pp. xvii, 359. $4.00.)

In the preface, the author announces that his purpose is to test and verify the orthodox theory of international trade. Later he more cautiously amends this statement to "verify or confute." It is well he

does so, for this study is noteworthy for the criticism and additions it offers to conventional views on foreign trade and investment rather than for the support it gives them. The book also contains extensive statistical data pertaining to the French balance of payments from 1880 to 1913, the French money market, and the operations of the Bank of France.

The main conclusions relate, first, to the processes of adjustment in the international accounts and, second, to the lending country's gain or loss from investing abroad. With respect to the former, the author holds that exchange rate movements are of importance only if one or both of the trading countries is off the gold standard. (It is assumed, strangely enough, that gold exchange standards belong in the category with paper standards.) Fluctuations in the rate of capital flow and cyclical movements of business activity may help to establish equilibrium in the balance of payments. Changes in price levels will always correct a condition of disequilibrium if given sufficient time, but their action is so slow that other forces are apt to bring about an adjustment before they come into play. Changes in demand schedules are of fundamental importance. They result from the transfer of purchasing power and are particularly effective because of the rapidity with which they begin to operate. Professor White maintains that in a country such as the United States after the war where gold reserves are large, where banking is highly developed, and where the price level is not sensitive to gold holdings, changes in demand schedules are likely to dominate the processes of adjustment. In a country such as England where international trade bulks large and where the banking system is very sensitive to gold flows, changes in sectional prices are more likely to be determinant.

It is worth noting that all of these factors except fluctuations in the flow of capital act primarily upon the trade balance so that trade in commodities is the focal point for the forces of adjustment. To a certain extent, the trade balance may determine the movement of capital rather than the reverse. For example, crop failure in France curtailed the net export of capital because of the necessity of importing larger quantities of food from abroad. As might be expected, the existence of indirect as well as direct effects and the intrusion of unrelated factors make it impossible to trace the trade effects of particular loans.

The author reiterates that no one force alone is responsible for adjusting conditions of disequilibrium. The relative importance of each depends upon circumstances which vary with different countries and with the same country at different times. They are influenced by the purpose of the investment—where this is the cause of the disequilibrium in the balance of payments—by the way the factors of production

share in the expenditure of the funds, by the degree of industrial development in the borrowing country, and by the nature of industry in the lending country.

In outlining the theory of adjustments in the international balance of payments, Professor White states that the movement of short-term funds in a direction opposite to the movement of long-term funds serves merely to postpone the outflow of gold, and again that such movements are not a means of adjustment but can only postpone the adjustment of disequilibrium. This view, if not mistaken, is at least misleading. The import of short-term funds when long-term funds are being exported means that the net export of capital is reduced by that amount and the disequilibrium correspondingly lessened. Through the gradual liquidation of the short-term funds the actual net transfer of capital is distributed over a longer period of time than would otherwise be possible. Whereas a shipment of specie might be necessary if all the transfer had to be effected suddenly, this may be unnecessary when the transfer is made gradually. Whether or not one chooses to call this a means of adjustment, the movement of short-term funds in this way certainly must be regarded as facilitating adjustment.

Professor White concludes from his examination of the gains and losses from French foreign investment that "the orthodox attitude toward unrestricted capital exports is open to criticism" (p. 311). He finds that even apart from the effects of the Great War the French investor consistently under-estimated the risk of foreign investment. The bias of the French toward investing abroad was influenced by political as well as economic factors but was due most of all to the action of the investment bankers who held a virtual monopoly of foreign loans. It is alleged that with the aid of subsidized newspapers they sold questionable securities at excessive prices. The record of foreign lending in France before the war is grimly similar to American experience since the war.

The type of securities bought, chiefly governmental and municipal bonds, made it impossible to measure the productivity of the investment. (The fact that direct investments are more apt to be subjected to tests of productivity would appear, incidentally, to be an important argument in favor of direct as against indirect investments.) But it is not enough, the author argues, that the funds may be used more productively abroad than at home, for the effect of foreign investments on terms of trade may be either favorable or unfavorable to the lending country. He concludes that "some measure of intelligent control of the volume and direction of foreign investments is desirable" (pp. 311-12).

The study as a whole suffers at times from the apparent desire of the author to make a case for the unorthodox view. He seems anxious

to minimize the importance of the specie-flow-price-movement analysis, though he accords it due weight in his conclusions. He is rather uncritical in his attempt to show the losses incurred by the French on foreign investment. The contention, based chiefly on quotations from popular sources, that foreign investment drained capital out of the country so that French industrial development was thereby seriously retarded is extremely unconvincing. And he carefully includes the effect on terms of trade among sources of loss but omits it in listing possible sources of gain (p. 291).

As an inductive examination of the theory of international trade, this study is handicapped by a dearth of official data. Despite a great deal of painstaking effort, the conclusions are suggestive rather than definitive, as the author repeatedly warns us. Nevertheless, because of the deductive quite as much as the inductive analysis presented, the book constitutes a valuable addition to the literature on international trade and finance.

CHARLES R. WHITTLESEY

*Princeton University*

*Théorie et Politique du Commerce International.* By GEORGES DE LEENER. (Brussells: Maurice Lamertin. 1933. Pp. 445. 75 fr.)

Professor De Leener restates the English classical theory of international trade and advocates its corollary, free trade, as the basic policy for international trade. In an introductory chapter the differences between international and domestic trade are briefly analyzed. Although they appear slight, the first chapter follows the comparative cost analysis—an analysis based on the assumption that the immobility of the factors of production among nations is sufficient to justify a separate value theory for international trade. The critical student of international trade theory will receive little assistance from the restatement of the comparative cost doctrine, or from the analysis of international monetary factors contained in the second chapter. Only a summary treatment is accorded the critics of traditional theory. Bertil Ohlin's significant contributions, for example, are not mentioned (*Handelns Teori*, Stockholm, 1924).

The remaining chapters (3, 4, 5, and 6) deal mainly with international trade practices and policies. Transportation costs, which frequently constitute an important difference between international and domestic trade and which properly belong under the subject of trade differences, are here discussed. Dumping, a prominent international trade practice, and especially dumping by a socialistic economy, is inadequately analyzed. Actual international barter, the indirect basis of all trade in the long run, is regarded as a dangerous rather than a beneficial practice because of the

possibility that force might replace individual competition as the determiner of the terms of trade. Various types of trade protection, tariff systems, and international tariff relations are discussed at length. In a review of free trade and protectionist arguments most of the blame for the present world depression is ascribed to post-war protectionism.

In a short, concluding chapter the author laments the fact that protective tariff systems flourish while many economists and statesmen vociferously denounce them as inimical to the progress and prosperity of nations. He suggests (p. 434) that an explanation or justification is needed for the divergence between classical trade theory and the trade policy of nations. Two points occur to the reviewer. First, since Professor De Leener ignores many of the criticisms of classical doctrine and fails to analyze recent changes in the technique of production, several important reasons for protectionism do not appear. Protective tariffs, for example, will probably be of assistance in the reorganization of the British industrial system. Semi-automatic machines and new energy resources, moreover, enable many industrially undeveloped countries to use protective tariffs more effectively than formerly.

Second, although Professor De Leener devotes more than half of his book to a discussion of tariff problems, no analysis is made of that important phase—the actual making of a tariff (*e.g.*, T. W. Page, *Making the Tariff in the United States*). A study of tariff making reveals clearly that tariff reform cannot be anticipated from the efforts of economists to educate legislatures and international conferences on the virtues of free trade, but rather that it must come from efforts to promote a piecemeal correction of protective tariff excesses and a bargain approach to international tariff relations.

CLIFFORD L. JAMES

*Ohio State University*

*Das Konjunkturproblem in der Nationalökonomie*. By FRIEDRICH LUTZ. (Jena: Fischer. 1932. Pp. viii, 176. RM. 8.)

The author undertakes to examine critically the different methods which have been employed in the study of the business cycle, and to set forth his own ideas as to the proper method to be followed. He classifies the various methods of his predecessors into four groups: (1) the abstract, deductive method of the classical economists; (2) the "mixed" method, involving a mixture of theoretical analysis and unanalyzed facts; (3) the return to purely theoretical analysis; and (4) the method of purely statistical research.

The classical economists who applied the abstract, deductive method to the study of crises—Say, Ricardo, Malthus, Mill, and the currency school—either failed to recognize the possibility of periods of overpro-

duction or offered explanations of the phenomenon which were based on false reasoning.

Under the "mixed" theories, the author includes the doctrines of Juglar, Lederer, Spiethoff, Cassel, and Tugan-Baranowsky. These theories clearly are the result of a compromise between the demand for more realistic treatment of the problem and the desire for a single theoretical explanation of the cycle. The result was that neither objective has been attained by the writers of this group.

Naturally the reaction from the "mixed" theories has taken two forms: one group has turned back to pure theory, while the other group has abandoned the theoretical approach entirely and has undertaken the study of the business cycle by the use of statistical analysis alone.

The group which has turned again to pure theory includes Moore, Dietzel, Schumpeter, Pigou, Stucken, Hawtrey, and Löwe. The method of these writers does not differ fundamentally from that of the classical economists. They use the method of variations, assuming one factor to be changed at a time and noting the effect to be expected. Thus they seek to obtain a universally valid explanation of the cycle. But, the author points out, no such universal explanation is possible. The cycle is the result of a highly complicated combination of forces—such as, volume of capital investment, technical progress, increase in quantity of money, variations in the harvests, friction, etc. No single theoretical explanation is applicable to all cycles.

The group which has turned away from theoretical explanations and has undertaken the study of the cycle through statistical analysis includes Wagemann, Mitchell, and Persons. These writers, seeking a more realistic view of the cycle, would limit themselves to analytical description, in statistical terms, of the cyclical fluctuations in economic activity. But, in the author's opinion, such studies cannot yield a solution of the problem. Statistical studies are useful as a means of revealing the exact nature of the problems to be considered; they are also useful for the verification of theoretical conclusions. The statistical method also serves, *in connection with the theoretical method*, in the analysis of concrete, economic situations.

A general, universal theory of the business cycle is impossible of attainment. But from theoretical analysis it is possible to determine, one by one, the effects of the various forces that play a part in the cycle: price-changes, income-changes, variations in the quantities of the factors of production, progress in technical knowledge, etc. Such theoretical studies, it is to be noted, belong in the realm of static theory; they cannot yield a theory of the business cycle as such. The theoretical principles thus developed can, however, be used in the study of concrete cyclical movements. In combination with these theoretical principles, statistical analy-

sis may be used for the quantitative determination of the relative strength of the different factors of significance in a given cyclical movement. Theoretical principles combined with statistical analysis applied to the solution of concrete problems will yield more valid and more "realistic" conclusions than any of the preceding methods.

B. F. HALEY

*Stanford University*

NEW BOOKS

DIVINE, T. F., and others. *Tariffs and world peace: a report of the Economic Relations Committee.* (Washington: Catholic Assoc. for Internat. Peace. 1933. Pp. 47.)

GAEDICKE, H. *Die produktionswirtschaftliche Integration Eurpas: eine Untersuchung über die Aussenhandelsverflechtung der europäischen Länder.* Teil II. *Tabellenband.* (Berlin: Junker und Dünnhaupt. 1933. Pp. xiii, 37.)

GAEDICKE, H. and EYNERN, G. v. *Die produktionswirtschaftliche Integration Europas: eine Untersuchung über die Aussenhandelsverflechtung der europäischen Länder.* Teil I. *Textband.* (Berlin: Junker und Dünnhaupt. 1933. Pp. viii, 179.)

MERING, O. F. VON. *Theorie des Aussenhandels. Inwiefern ist das Freihandelsargument ungültig?* (Jena: Fischer. 1933. Pp. vi, 56. RM. 3.)

RIEDL, R. *Statistische Grundlagen innereuropäischer Handelspolitik.* Mitteleuropäische Wirtschaftspolitik, Heft 5. (Berlin: Rothschild. 1933. Pp. viii, 55. RM.5.)

A compact statistical compilation of import and export figures.

*The commercial treaties of European states.* 3rd ed. (Vienna: Osterreichische Gruppe der Internationalen Handelskammer. 1933. Pp. xxiii, 92.)

*New Zealand: statistical report on trade and shipping in the Dominion of New Zealand, 1932.* Part II. (Wellington: Census and Statistics Office. 1933. Pp. xvi, 86. 3s. 6d.)

*Review of world trade.* (Geneva: League of Nations. 1933. Pp. 64. 50c.)

## Accounting, Business Methods, Investments and the Exchanges

*The Internal Debts of the United States.* Edited by EVANS CLARK and GEORGE B. GALLOWAY. (New York: Macmillan, for the 20th Century Fund. 1933. Pp. xx, 430. $4.50.)

The precipitous decline in price levels, trade volume and income from 1929 to 1933 turned the attention of the population of the United States to the problem of the nation's debt structure more forcibly than at any time since 1893. Recently there have appeared numerous pamphlets, articles, and at least one substantial volume on the problems of internal debts as opposed to external debts. The above title is somewhat ambitious, since the discussion pertains essentially to the long-term, internal debts of the United States.

This volume is obvious though challenging, clear but enigmatic, scholarly yet illogical. Admittedly the joint production of nine persons, each dealing with a special phase of the debt question, the work somehow falls short of what one might reasonably expect. The individual chapters, 2 to 12 inclusive, discuss farm mortgages, urban mortgages, debts of railroads, public utilities, industrial corporations, financial corporations, and banks, government debts, short-term business debts, and short-term personal and household debts. These chapters are well done, each presenting the facts pertaining to that particular group of debts and making recommendations concerning them. There is no particular uniformity in the recommendations for the solution of the various debt-group problems.

In dealing with the debt problem generally the authors have elected to take the position (p. 388) "that the problem of debt should be met through exercise of control over the economy rather than through wholesale readjustment of the debt structure," which commits them to the defense of existing debts, of raising prices, of holding the standard of living lower than the income to secure surpluses for debt extinctions and services, of increasing production, and of defending individualism *status quo ante*. No clear-cut presentation of the distribution of debits and credits in relation to the distribution of wealth and income is made with the exception of the rather unwarranted and too broad statement that there exist no well defined debtor or creditor classes in the United States. The statement (p. 3) that "internal debts are not a drain upon a nation's income as a whole" is true, but this is like saying that there are no poor people in the United States in 1933 since the average wealth is probably over $2,000. An elucidation of the fact that debts constitute fixed charges against uncertain incomes would have given a much clearer conception of the problem of individual debts. The author's recommendation (p. 406) of automatically adjusting future debt contracts in the light of changing price levels could well be considered as a just basis for the adjustment of existing debts, and the authors could have enhanced the value of their volume considerably by including some discussion, pro and con, of such adjustments upon such a basis.

On pages 4-5 the discussion implies that the $134 billions of long-term debt is relatively the only important debt of the nation, whereas on page 22 one finds that there exists an additional current debt of $103.6 billions. In the preface, pp. xviii-xix, all conclusions appear to be based upon only long-term debts and are open to serious criticism in the light of a reported total debt of $237.6 billions against a total national (estimated) wealth of $300 billions. The question of the *wisdom* of the policy of debt creation (p. 18) can scarcely be dismissed with the statement that it is only of *academic* interest, especially when the authors

find it necessary later in the book (pp. 399-402) to discuss the *advantages* of debts to the length they do.

The volume is disappointing because (1) there are obvious instances of non-consideration of short-term debts which, if adequately weighed, destroy the validity of some of the basic conclusions; (2) the volume seems to be a defense of the practice of financing oneself both into and out of economic difficulties; (3) the relations of internal to external debt structures are ignored; (4) the discussion of structural interrelationships of debts is conspicuous by its absence; (5) the economic theory upon which some of the recommendations are based is open to question; and (6) there is no discussion of the historical aspects of the problem nor a mention of the fact that the debt problem is recurrent with the business cycle.

The reviewer noticed some typographical errors, *e.g.*, page 16, the loans on urban property are stated in millions instead of billions. There are no references to other estimates of the national wealth and income other than those used, though some of them are at variance from the values elected to be used in this volume.

The above criticisms are directed essentially against the preface, and the opening and closing chapters. Some of the authors disagreed with the last chapter and have stated their reservations in a special appendix. While this book must be accorded a welcome addition to current economic literature, the preface, and first and last chapters will probably have to be revised before it will meet the approval of critical readers.

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### NEW BOOKS

Bailey, B. C. *Bailey's tables and methods: simplified mathematics of finance for banks, finance corporations, investment companies, etc.* (Los Angeles: Times-Mirror Press. 1933. Pp. 368. $20.)

Bartlett, L. W. and Neel, M. B. *Compensation in the professions.* Stud. by George Williams College, Chicago. (New York: Association Press. 1933. Pp. 204. $2.)

Bitter, F. W. and Zelle, A. *No more war on foreign investments: a Kellogg pact for private property.* (Philadelphia: Dorrance. 1933. Pp. 86. 75c.)

Bowman, C. E. and Percy, A. L. *Fundamentals of bookkeeping and business.* (New York: Am. Book Co. 1933. Pp. viii, 316.)

Bowman, R. M., and others. *Speeding up inventory turnover meeting the market price.* Mass production ser. 6. (New York: Am. Management Assoc. 1933. Pp. 52. $1.)

Brandt, A. J., and others. *Production economies secured from the reduction of set-up time.* Job order production ser. 7. (New York: Am. Management Assoc. 1933. Pp. 32. $1.)

Chatters, C. H. *Accounting manual for small cities (under 25,000 popula-*

*tion).* (Chicago: Municipal Finance Officers' Assoc. of U. S. and Canada. 1933. Pp. 79. $1.)

Cover, J. H. *Business and personal failure and readjustment in Chicago.* Stud. in bus. admin. vol. iii, no. 4. (Chicago: Univ. of Chicago Press. 1933. Pp. 116. $1.)

Dienst, C. F. *The administration of endowments, with special reference to the public schools and institutional trusts of Idaho.* Teachers Coll. contribs. to educ. no. 560. (New York: Teachers Coll., Columbia Univ. 1933. Pp. xi, 131.)

Dillavou, E. R. and Howard, C. G. *Principles of business law.* Rev. ed. (New York: Prentice-Hall. 1933. Pp. xxxix, 966.)

Dodd, P. A. *Financial policies in the aviation industry.* (Los Angeles: Author, Univ. of California. 1933. Pp. 241. $3.)

Filipetti, G. *Scientific management, an aid to industrial control.* Employment Stab. Res. Inst. add'l pub. no. 16. (Minneapolis: Univ. of Minnesota Press. 1933. Pp. 58.)

Finney, H. A. *Introduction to principles of accounting.* (New York: Prentice-Hall. 1932. Pp. xv, 649. $5.)

This text is designed for a first-year course in accounting to be followed by at least one additional year. The approach to the subject is through the account, and the principal emphasis of the book is on bookkeeping procedure and common business facts. In order to simplify the discussion, the material and problems in the introductory chapters are based on the accounts of companies which derive their income from fees rather than from merchandise sales, and the problem of adjustments is deferred to a later section. The author believes that this shows more clearly how income and expenses affect net worth and avoids inventory complications in the first explanation of the procedure of closing the books. A further feature is the use of the corporation in illustrations of the early chapters rather than individual proprietorship. Two chapters discuss negotiable instruments and the problem of readjustments at the end of the period. Other topics discussed are special books and special columns, the voucher system, the accounting problems peculiar to the individual proprietorship, the partnership and the corporation.

The final section of the book deals with problems of valuation and advanced bookkeeping procedure. An appendix discusses the problem of locating errors and correcting them as found. Questions and problems are included at the end of each chapter, and a laboratory set extending through ten chapters is included in the text material. The book is accompanied by supplies necessary for the working of the problems and the practice set.

W. P. Fiske

Frederick, J. G. *A primer of "new deal" economics.* (New York: Business Course. 1933. Pp. 327. $2.)

Gault, E. H. and Smith, R. F. *Wholesale distribution of breakfast cereals in southern Michigan.* Michigan bus. stud. vol. v, no. 4. (Ann Arbor: Univ. of Michigan. 1933. Pp. 47. $1.)

Gordon, W. D. and Lockwood, J. *Modern accounting systems.* 2nd ed., largely rewritten. (New York: Wiley. 1933. Pp. x, 481. $4.)

Green, P. M. *General Motors Corporation: a study in corporate consolidation and finance.* (Urbana: Univ. of Illinois. 1933. Pp. 15. 80c.)

HANEY, L. H. *The price outlook.* Finan. manag. ser. 45. (New York: Am. Manag. Assoc. 1933. Pp. 12. 50c.)

HOAGLAND, H. E. *Corporation finance.* (New York: McGraw-Hill. 1933. Pp. xix, 463. $3.50.)

In important respects this book differs in method, emphasis and scope from the traditional text in corporation finance. Illustrative material dealing with the financing of particular corporations is omitted entirely, and the legal aspects of the subject are given very minor consideration. Approximately one-fifth of the space (Part 4) is devoted to short-term financing and internal financial control, separate chapters being set aside for budgets and credit policies. The six chapters of Part 7 dealing with social control of corporations are not only timely, but they are also a well-balanced outline of the various phases of this problem.

If any adverse criticism is to be made of this text, it is that the author attempted too much in a book of ordinary size, with the result that his treatment of some important and fundamental concepts and problems at times lacks lucidity and is too brief. For example, Dr. Hoagland might have been clearer in his discussion of such terms as capitalization, watered stock and over-capitalization. The financial plans of railroads, utilities and industrials might well have been given separate consideration. And in the chapter on financial statements and corporate reports, specific ratios are not discussed, although reference is made to the uses and limitations of ratio analysis, particularly the latter.

In general, the book has merit as a text in spite of its attempted encyclopedic character in parts, and it is an unmistakable improvement over those older texts which do not devote sufficient space to the elements of accounting to bridge successfully that too frequent gap in training.

WARD L. BISHOP

JORDAN, D. F. *Jordan on investments.* 2nd rev. ed. (New York: Prentice-Hall. 1933. Pp. xiv, 425. $4.)

KANZER, E. M. and GERSTENBERG, C. W. *Essentials of business law.* (New York: Prentice-Hall. 1933. Pp. xii, 551.)

KESTER, R. B. *Accounting theory and practice: advanced accounting.* 3rd rev. ed. (New York: Ronald. 1933. Pp. 865. $4.50.)

KIMBALL, D. S. *Principles of industrial organization.* 4th ed. (New York: McGraw-Hill. 1933. Pp. 477. $4.)

KIRSH, B. S. and SHAPIRO, H. R. *The National Industrial Recovery act: an analysis.* (New York: Central Book Co. 1933. Pp. 156. $2.50.)

The senior author is well known as an authority on the legal aspects of trade associations and is admirably qualified to treat of the legal phases of the present sweeping extension of trade association influence. Having been published so closely upon the passage of the Act, the book purports to be no more than an analysis and explanation of the statute itself, and contains no treatment of experience under the statute. It is further limited to the industrial control features, excluding discussion of the public works section of the Act. The analysis of the terms of the law is systematic and complete. There is some discussion of the bearing of the Act on recent Supreme Court decisions, both as regards trade associations (notably the Appalachian Coals case) and as regards the long-standing grievances of labor against the anti-trust laws.

From the economist's standpoint the book contains one serious blemish, that is the repeated and uncritical assertion (*e.g.*, p. 44) that the total product of industry must be adjusted to an amount that will balance the demand. It is easy to see how long preoccupation with the trade association problems of particular industries might foster the notion that progressive restriction of output to an abnormally throttled demand is the key to recovery. And it is scarcely fair to expect the complexities of the price system to be unfolded in a brief book of this kind. Nevertheless, the issue of restriction is a basic one which will have to be faced as the N.R.A. program develops, and there is much evidence that the fundamental economics of the situation is widely misunderstood.

The economist seeking legal enlightenment might also regret the lack of fuller discussion of the fundamental issue of constitutionality in relation to the emergency declarations, public welfare clause and the hitherto established limitations of the commerce power.

As a guide to and analysis of the Act itself, the book has genuine merit. A similar technique extended to other and less sensational acts of Congress would be of great value in making clear to the layman their scope and intention.

B. A. Thresher

Kirshman, J. E. *Principles of investment.* 2nd ed. (New York: McGraw-Hill. 1933. Pp. xviii, 776. $5.)

Quite evidently prepared to sell in colleges which are either too crowded or too poverty-stricken to furnish the students with adequate reference libraries for detail and fact material, this book is clumsily voluminous.

Part 1, "The economic basis of investment," undertakes to lay the theoretical groundwork. It is trite though discursive, semi-historical, and very suggestive of an encyclopaedic and uncritical listing of theories which have held prominence. Thus there is no hint as to the order in time, or the contemporary conditions affecting the thinking, of Smith, J. S. Mill, Bagehot, Walker, J. B. Say, Thuenen, J. B. Clark, and Hawley, who are cited in this order as contributors to (or rather, debaters in) a rather nebulously scrappy discussion of the theory of profits. The last chapter, on "Value, price and yield," is peculiarly sterile.

Part 2, "The elements of investment credit," in form descriptive and expository, is more valuable as a development of the theory of the general subject, while the author, warming to his work, makes some penetrating criticisms and constructive suggestions. It is conceivable that teachers will start their classes at this point.

Parts 3 and 4, "The field of investment," constitute the bulk of the book, 420 pages in which the author undertakes to trace the history, describe the features, and analyze the problems associated with each of the familiar classifications of market securities. Each of these discussions is condensed enough to be dry and long enough to be tedious. A few basic general principles well and thoroughly established in the opening chapters would here have saved much time and energy of both author and reader.

In this section the chapter on investment trusts furnishes an excellent opportunity for new treatment and original contribution, but none appears. This field in which wide ramifications and scandalous abuses have developed in recent years is given a routine treatment in which we find no ref-

erence whatever to those legal aspects which have made it difficult for either the investing public or the exchanges to understand and control. Neglect of essential legal aspects of problems discussed is a weakness running throughout the work.

Part 5, "Security price movements," is the best portion of the book. In this, as in the opening chapters, there is the assumption of pure profits from industrial enterprise without adequate assignment of source or possibility, and other venerable dogmas now questionable escape with neither criticism nor proof; but the treatment here happily is brief enough to insure the reader against the belief that it is either complete or adequate.

JOHN H. SHERMAN

KNOEPPEL, C. E., and others. *Profit engineering, applied economics in making business profitable.* (New York: McGraw-Hill. 1933. Pp. xvi, 326.)

LANGER, C. H. *Accounting principles and procedure: new advanced accounting I.* (Chicago: Walton Pub. Co. 1933. $5.)

LAZARUS, A. *Recent developments in budgeting.* Gen. manag. ser. 119. (New York: Am. Manag. Assoc. 1933. Pp. 20. 75c.)

LEWIS, E. E., and others. *A primer of the new deal: a friendly but nonpartisan interpretation of the measures adopted by the Roosevelt administration.* (Columbus: Am. Educ. Press. 1933. Pp. 64. 25c.)

LINK, H. C. *The new psychology of selling and advertising.* (New York: Macmillan. 1933. Pp. 293. $3.)

LYON, L. S. *Pricing policies.* Gen. manag. ser. 120. (New York: Am. Manag. Assoc. 1933. Pp. 12. 50c.)

MCNAIR, M. P. *Expenses and profits of department store chains and department store ownership groups in 1931.* Bull. no. 90. (Boston: Harvard Univ. Bur. of Business Research. 1933. Pp. vi, 33. $2.50.)

NEWFIELD, E. H. *A.B.C. of the securities act.* (New York: Abo Press. 1933. Pp. 96. $3.)

ROSE, D. C. *The practical application of investment management.* Vol. II. *1933.* (New York: Author, Brundage, Woodward, Story & Rose. 1933. Pp. ix, 199.)

SCHMALZ, C. N. *Operating results of department and specialty stores in 1932.* Bull. no. 91. (Boston: Harvard Univ. Bur. of Business Research. 1933. Pp. vi, 57. $3.50.)

SLOAN, L. H. *Current vogues in corporation refinancing.* Finan. manag. ser. 44. (New York: Am. Manag. Assoc. 1933. Pp. 12. 50c.)

STREIGHTOFF, F. H. *Advanced accounting.* (New York: Harper. 1932. Pp. xi, 656. $4.)

Offered as a basis for a second-year course in accounting, this text assumes a well-rounded knowledge of elementary accounting principles, including bookkeeping. The book begins with the usual discussions of the financial statements and the problems of valuation of assets. The remaining 23 of the 29 chapters cover a wide range of topics, including internal check (not often found in general treatises on accounting), budgeting, analysis of financial statements, problems arising from special methods of selling (consignments, joint ventures, installment sales, agencies and branches), insolvency, consolidated balance sheets and the mathematics of accounting. A single chapter on "Partnership vicissitudes" is the only discussion of accounting problems of the various forms of business organiza-

tions. Over 100 pages of problems, arranged to follow the order of chapter presentation, questions, references for supplementary reading and a nontechnical glossary add to the value of this work.

W. P. Fiske

Tebbutt, A. R. *The behavior of consumption in business depression.* (Boston: Harvard Univ. Bur. of Business Research. 1933. Pp. vi, 21. $1.)

Tosdal, H. R. *Introduction to sales management.* (New York: McGraw-Hill. 1933. Pp. 431. $3.50.)

Valenstein, L. and Weiss, E. B. *Business under the Recovery act.* (New York: McGraw-Hill. 1933. Pp. xi, 314. $2.50.)

This is a book for current reading rather than one of lasting value. It concerns itself primarily with an effort to predict the effects of the N.I.R.A. on marketing activities. It specifically avoids discussion of the economic and social aspects of the legislation.

The authors, men of wide contacts with business, coin an apt term, "business socialism," for the economic order created by the act. They find considerable similarity between the N.I.R.A. and the cartel system adopted in Germany to combat the depression of 1873. They expect that the principal influence of the Recovery act on marketing will come through the elimination in codes of unfair competitive practices, of which they list 40, including misrepresentation, commercial bribery, price discrimination, and others frequently found in codes of ethics formulated in the past, but inadequately enforced. Some of their predictions are:

An ensuing period of rising prices will lessen extreme hand-to-mouth buying, and rules as to minimum size of orders may be adopted.

Standard cost accounting methods and the formulation of scientifically determined prices will be encouraged.

Independent merchants will benefit as against large chain and department store units.

Better scientific sales planning will result through more complete statistical data and the controlling of unintelligent competition.

There will be a "house-cleaning" for advertising, with elimination of false and misleading claims and of comparative price advertising.

The volume of advertising will increase considerably, because "advertising is an economic force that functions best in a business situation that is not characterized by competitive biting and clawing."

The easing of competition within industries will intensify competition between industries.

Trade associations will be strengthened by driving in all units in an industry, thus stimulating coöperative advertising.

The authors believe that individual greed, evasion, racketeering and industrial bootlegging will continue, and that they will prevent the Recovery act from attaining its objectives in full. Yet they are convinced that if it is even one-third successful it will remake the picture of American business and be continued after the two-year trial period has expired.

The book neglects certain of the deeper and more difficult questions which concern business men. For instance, it does not attempt to prophesy to what extent the freedom of individual concerns is to be circumscribed by codes, nor how far associations will be permitted to go in fixing prices, nor by what mechanisms destructive price competition is to be eliminated.

However, probably no one is in a position at this time to make any worth-while guess on such points as these.

R. F. ELDER

WINGATE, J. W. *Retail merchandise control.* (New York: Prentice-Hall. 1933. Pp. xv, 478. $5.)

A business book based upon research studies.

YOUNG, J. W. *Advertising agency compensation, in relation to the total cost of advertising.* (Chicago: Univ. of Chicago Press. 1933. Pp. ix, 186. $2.50.)

*American Institute of Accountants: facts and purposes.* (New York: Am. Inst. Pub. Co. 1933. Pp. 55.)

*Clerical salaries in the life insurance business.* (Fort Wayne, Ind.: Life Office Manag. Assoc. 1932. Pp. xiv, 219. $3.)

*Market and newspaper statistics—one hundred and eight cities.* (New York: Am. Assoc. of Advertising Agencies. 1933. Pp. 250. $10.)

*Oliphant's studies in securities.* 7th issue. (New York: Jas. H. Oliphant. 1933. Pp. 158.)

## Capital and Capitalistic Organization

*Cartels, Concerns and Trusts.* By ROBERT LIEFMANN. Translated by D. H. MACGREGOR. (New York: Dutton. 1932. Pp. xxix, 379. $6.00.)

This work undertakes a detailed account and analysis of the development and status, particularly in Germany, of concerns, cartels and trusts, together with a treatment of the effects of these organizations upon the economic order of which they are a part, and upon each of the entities and groups with which they come into contact. The major part of the book is devoted to cartels; and it is this portion which will be of particular interest to American readers and on the basis of which the significance of the author's contribution must largely be judged. The discussion is confined almost exclusively to price and production policies of the cartel; monopoly is its prime feature, and the "harmless" activities which occupy such a prominent part in American treatises on trade associations are ignored as "not of the essence."

So far as socialism and state control are concerned, Professor Liefmann is an unregenerate individualist; yet in the matter of industrial organization he finds collectivist control and monopolistic purpose both natural and beneficial. He inveighs against those who treat the "national economy" as if it were "a deliberately created institution, capable of alteration *ad libitum*"; and on the other hand he records approvingly that "we find the point of view expressed in the English and American law according to which 'contracts in restraint of trade' are forbidden in principle, has almost everywhere been abandoned." "Pursuit of profit" rather than "free competition" is the dominant organizing principle of economic life. Dr. Liefmann visions, apparently, a *natural* economy, driven by the profit motive, characterized by activity lying between the extremes of free competition and complete monopoly, and kept with-

in bounds largely by the force of *potential* competition (aided occasionally by the state, become conveniently wise and effective for this purpose). The present-day struggle of organized producers against consumers, the reader is told, has supplanted the classic struggle of producers against each other, and price stability has succeeded price fluctuation; yet, withal, the presence of the "delicate" process of exchange is to be recognized. Against this background the effect of the cartel upon industry (including workers) and consumers is traced. The cartel emerges virtually unscathed from the author's critique.

The merit of the book is assured by its reputation gained from five earlier editions, and by the authority of its author and translator. The reviewer's remarks, then, will be directed toward those phases which seem less convincing. There is much to accept and to applaud; but there is much, as well, to draw fire.

At the outset, one regrets the extent to which he is forced to rely upon the authority of the author rather than upon closely sustained reasoning and empirical proof, and this despite the inclusion in the treatise of a substantial mass of industrial data and information. There is bound to be dissatisfaction over the *ex cathedra* dismissal of the competitive régime, and the degree of "naturalness" with which Dr. Liefmann invests his own conception of the economic order. One wonders at the forces responsible for the "unnatural" English tradition of competition; and, in the light of its cavalier treatment by the author, there is room for further wonder at the dependence which he places upon merely "latent" competition, and the degree to which the "delicate" exchange process creeps into his analysis—a process which in the absence of competition loses much of its economic significance. Indeed, the author's tendency to speak in terms of competition and monopoly at the same time is, occasionally (p. 281), most confusing.

With economic power centered in the hands of huge, contending cartels, what, really, is to serve as the coördinating and directing agency necessary in any economy? Professor Liefmann decries state supervision, and heralds the passing of individual competitive exchange; yet one seeks in vain through his pages for the mechanism by which a proper utilization of social resources is to be achieved, or the standard by which it is to be gauged. In fact, one seeks fruitlessly for a clear statement of the problem.

At still other points the analysis is inconclusive: in the contrast drawn between the desire of entrepreneurs to avoid losses and their desire to realize monopoly gains; in the parallel drawn between associations of laborers and associations of industrial units; in the contrast which the author finds between the effective control processes of potential competition and the clumsy efforts of governmental price fixing,

together with the assumption that the patent defects of the latter are inherent; in the complacency with which loose and general terms are employed by Dr. Liefmann contrasted with his comments upon their presence in statutes and judicial opinions; in the reaching out for causal connections between cartels and technical progress. And surely the effectiveness of latent competition as a protective device depends substantially upon the nature of the factors responsible for its being "latent" rather than "actual."

The effect of the cartel upon the appearance and severity of industrial depressions is, of course, of tremendous current importance. The author's treatment (defensive rather than positive) is, again, not convincing. Control of the amount and direction of investment, no less than control of the use of such capital as has chanced already to be invested, seems called for in the premises; yet the open cartel offers nothing to meet this need, and the presence of latent competition constitutes an additional positive barrier, if not, indeed, a virtual denial of the need itself. Further, control at this point is scarcely a task which society can safely entrust to the particular units that happen to be "in." And on the matter of trade stability, it is not clear that the author distinguishes sufficiently between stability resulting from the elimination of wasteful, non-essential attributes of competition and that specious stability which derives from overlooking the essentially unstable quality of a dynamic, price-controlled economy.

The appearance of the book in this country seems timely in view of the recent *Appalachian Coals* case (288 U.S. 344) and the projected recovery program of the Roosevelt administration. It should be emphasized, however, that the kinship between these developments and the structure and philosophy of the movement described by Professor Liefmann is, in fact, remote.

Ben W. Lewis

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*Public Utility Regulation*. By William E. Mosher and Finla G. Crawford. (New York: Harper. 1933. Pp. xvii, 612. $5.00.)

In this book the authors study the administration of regulation by public service commissions, and point out how the powers of the commissions should be strengthened and their procedures modified. The investigation emphasizes the administrative aspects of regulation rather than the economic or legal aspects.

The book is divided into three parts. Part I deals with the nature of public utilities, the origin of commission control, judicial review of commission orders, and commission organization. Part II treats of ad-

ministrative policies and problems. The principal topics discussed are: franchises and certificates, finance, accounting, depreciation, standards of service, valuation, rate of return, rate structures, holding companies, and interstate problems. Part III deals with special problems, including motor carrier operation, rural electrification, grade crossing elimination, the relations between the municipalities and the utilities, and public ownership.

The authors are deserving of both high praise and severe criticism —praise for having grappled critically, but constructively, with the problems of public utility regulation. In a well documented work, supplemented by a bibliography and index of cases and commission decisions, they have presented, in an interesting manner and a pleasing style, the results of a thorough and unbiased inquiry into the scope and effectiveness of present methods of public utility regulation. The authors find that regulation has generally been quite ineffective, but they do not favor public ownership, largely because of the danger that publicly owned plants will be administered "politically." Though they believe that private operation of public utilities is on trial as never before, they express the opinion that public ownership on a broad scale is not probable unless there is presented to the public more convincing evidence of the breakdown of regulatory methods.

The book merits severe criticism because of the gross inaccuracies scattered throughout its pages. Though many illustrations might be given, reference will be limited here to two types of errors: quotations from decisions of the United States Supreme Court; and names of authors. With respect to the first, the reviewer, having noted certain obvious errors in particular quotations, checked sixteen of them at random, and in only one instance was the Supreme Court quoted accurately. On Page xiv, in a quotation from Dayton-Goose Creek Railway Company *v.* United States, there are six errors in four lines; and on page 186, in a quotation from Smyth *v.* Ames, there are omitted, solely through negligence, as many as thirteen words, the omission of which ascribes to the Supreme Court views it did not express.

In respect to authors, no book by a reputable economist has ever come to our attention in which more liberties were taken with names and initials. Bauer is sometimes John D., sometimes John M., and sometimes plain John; Martin G. Glaeser appears as Martin C. and Martin W.; Maltbie is either Milo, or Milo H., or Milo R., and is credited with the authorship of a book written by W. H. Maltbie; Sharfman is sometimes spelled correctly, and sometimes is spelled Scharfman; Splawn is both N. W. and M. W. M.; and G. Lloyd Wilson is referred to as G. Lloyd Watson. Other illustrations could be given, were there occasion for it.

It is a pity that a book, really meritorious in many respects, should have its value seriously impaired by such a low standard of accuracy.

ELIOT JONES

*Stanford University*

NEW BOOKS

BAKEWELL, P. *Concerning the nature of a just monopoly under our patent laws.* (St. Louis: St. Louis Law Printing Co. 1933. Pp. 97.)

BARNES, I. R. *Cases on public utility regulation.* (Ann Arbor: Author, Edwards Bros. 1933. Pp. iii, 276. $3.50.)

A collection of case materials prepared for the use of classes in public control of business, in Yale University.

COX, R. *Competition in the American tobacco industry, 1911-1932: a study of the effects of the partition of the American Tobacco Company by the United States Supreme Court.* (New York: Columbia Univ. Press. 1933. Pp. 372. $4.50.)

When the United States Supreme Court decided that the American Tobacco Company had acted in unreasonable restraint of trade, it considered, first, the issuance of a permanent injunction, and, then, the appointment of a receiver. Both of these alternatives were, however, rejected and the lower court was ordered ". . . to hear the parties, by evidence or otherwise, for the purpose of ascertaining and determining upon some plan or method of dissolving the combination and of re-creating, out of the elements now composing it, a new condition which shall be honestly in harmony with and not repugnant to the law."

The partition decree, hailed by Attorney-General Wickersham as "the most successful dissolution in accomplishing what led to the Sherman act," was bitterly criticized by Louis D. Brandeis, attorney for the independents, who asserted that the tobacco companies would be far stronger after the decree than they had been before. The task which Dr. Cox set himself was to ascertain whether, in the intervening twenty years, competition had been restored to the tobacco industry and the avowed purpose of the decision achieved.

Starting with a discussion of the partition decree, the author traces the growth of the tobacco industry since 1911, and analyzes the evidences of competition in the distribution of business among manufacturers, the competitive influences affecting the scale of production and of integration, and competition and collusion in leaf purchases. He then describes competition among manufacturers in the sale of their products and competition among distributors. Some attention is also devoted to the earnings of the successor companies and to the financial control of these companies. The appendix is devoted to an interesting description of the United Cigar Stores Company.

In the author's opinion, conditions in the tobacco industry are neither those of a purely competitive nor of a purely monopolistic régime. Rather they approach the nature of a duopoly as described by E. H. Chamberlin. The small number of producers and the obstacles, largely financial, to the entrance of others have brought about a situation containing elements of both monoply and competition. Thus, the year-to-year variations in relative output among the four big cigarette producers indicate, to Dr.

Cox, the presence of competition, while their high earnings point to some degree of monopoly.

As to whether the partition could have been better effected under some alternative plan, the author says, "In the end it is not at all unlikely that a situation very much like the present one would have appeared. The industry . . . seems to be one in which competition when working itself out in the survival of enterprises of the optimum size also works itself out in the survival of too few companies to permit the survival of free competition. The paradoxical result of competition is to kill competition."

EMANUEL STEIN

FISHER, C. O. *Some aspects of commission regulation of public utilities in Connecticut.* (Ann Arbor, Mich.: Edwards Bros. 1933. Pp. ii, 100.)

This is a careful study of the Connecticut Public Utilities Commission, its origin and accomplishments, with a critical appraisal of its effectiveness. Professor Fisher is scrupulously fair in tempering critical analysis with a sympathetic appreciation of the conditions and background amid which the Commission functions. He concludes that "the Connecticut Commission has been far from a success in grappling with the major problems of utility regulation. On the other hand, as a police organization to adjust petty grievances and prevent minor injustices and wrongs, the Commission has been a distinct gain."

In view of the fact that the troubles of consumers are largely built up, like a coral reef, of accretions of just such petty grievances and minor injustices, the effective portrayal of this lesser phase of regulatory activity is in itself a valuable contribution. Professor Fisher has done it with Boswellian fidelity to detail. His chronicle of the Commission's day-to-day struggles with the minor disturbances of customer-utility relations provides excellent data for a theory of economic friction and inertia. From the record we can estimate about what degree of annoyance is required to induce a water or telephone user to appeal to the Commission for redress, and what additional frenzy of vexation is needed to carry him through the succession of complaints, notices, hearings and rulings on admissibility of evidence which he is likely to encounter. This material, though in one sense of subordinate importance, has cumulative value as illustrating the tendency of American administrative tribunals to "go judicial." It shows the effect of innate conservation and passivity, increased through the policy of the law in withholding power of initiative in rate cases.

The author describes in detail the economic and political background of events leading up to the establishment of the Commission in 1911, and the hesitant attitude of the legislature in granting powers now generally regarded as indispensable for an effective regulatory body. For this hesitation he feels that the complacency of the Commission is partly responsible.

The Connecticut body, from this portrayal, is seen to be typical of the less advanced state commissions. It is characterized by limited appropriations, conservative membership, lack of initiative powers, undue acquiescence in reproduction-cost rate bases, inadequate control over consolidations and security issues, and of course almost complete helplessness in coping with holding company influence. The peculiar merit of this study lies in the wealth of detail covering every phase of the Commission's

work. It is a full-length portrait of state regulation as American conditions have shaped it.

B. A. Thresher

Goldschmidt, R. W. *Kapitalpolitik.* Veröffentlichungen des Instituts für Finanzwesen an der Handels-Hochschule Berlin, Band 6. (Berlin: Junker und Dünnhaupt. 1933. Pp. xii, 478. RM.25.)

Prendergast, W. A. *Public utilities and the people.* (New York: Appleton-Century. 1933. Pp. vii, 379. $3.)

## Labor and Labor Organizations

*The Industrial Commission of Wisconsin.* By Arthur J. Altmeyer. (Madison: Univ. of Wisconsin Press. 1932. Pp. 324.)

The organization of the industrial commission of Wisconsin in 1911 represented a departure from prior labor departments in three respects: (1) it consolidated all labor law administration, including workmen's compensation; (2) it provided for a three-man commission instead of a single executive; and (3) it conferred wide order-making powers on the department. All these innovations were widely acclaimed and imitated. In the twenty-two years that have elapsed there has been a distinct trend away from the three-man commission. In the great majority of the states, the labor departments are now headed by a single commissioner or by a director in charge of all administrative duties of the department and a commission in which the order-making and quasi-judicial powers are vested.

The Wisconsin industrial commission, however, remains practically as it was originally set up in 1911. Throughout, it has enjoyed extraordinary prestige both in and outside the state. Such is its reputation that whenever in recent years any new state activity has been undertaken, some interested group has proposed that this function should be put under the industrial commission. Thus, this commission now administers, besides all labor laws, the state building code, the fire prevention laws, and the emergency relief act, is represented on the state board of vocational education, and only narrowly escaped responsibility for regulating small loans companies.

Mr. Altmeyer's book is a study of the functioning of the Wisconsin industrial commission, by its secretary. It is an insider's account, but is remarkably objective. Throughout, the author has not been content with personal knowledge gained through fifteen years of service with the commission, but has carefully checked all available statistics and records. His study is altogether free from any note of extravagant praise or of attempts to answer critics. At the close of each chapter, the author presents a critical estimate of the work of the commission, but leaves no doubt where the recital of facts ends and comments begin. While loyal and proud to be associated with the department, he is probably more critical of its work than any outsider would be.

There are some respects in which this study is not complete. It lacks a chapter giving a general picture of the industrial commission of Wisconsin, presenting such facts as total personnel and appropriations, the general organization of the commission, its functioning as a body, and the work of the secretary. Further, the author's connections with the department forced him to omit all mention of personalities, and this omission may cause the reader to overlook the very large part which particular individuals have had in the success of the industrial commission of Wisconsin. Its fine record is due more to the caliber of the commissioners and the men and women who have served it as employees than to anything else except, perhaps, the fact that conditions have been such that these employees have been able to stay in their positions long enough to become really efficient.

Despite these limitations, this is easily the best study that has been written of the functioning of any American labor department. It is of interest alike to students of labor problems and students of government. The author's ripe experience makes his observations on the details of labor law administration peculiarly valuable to people engaged in administrative work in this field. No one can read a book like this without realizing that the administration of labor laws is at least as important as their enactment, and no less difficult.

As a study of government, the great merit of this book is that it represents a very different approach from that followed in most other studies of governmental departments. The author regards the industrial commission of Wisconsin as an agency charged with the administration of particular labor laws and is concerned solely with how well it does its work. He does not even mention such matters as budget control, responsibility to the governor, and centralization of authority within the department, which occupy such a large part of the treatment of governmental departments by political scientists and self-styled experts in administration. In the last chapter, some generalizations on principles of labor law administration are presented, but these are practical conclusions based on experience rather than principles deemed universally applicable to all administrative departments.

Whether the author is right or wrong in the assumption that the type of organization required for the performance of particular functions of government should vary with the functions to be performed, the volume of the work to be done, the existing personnel, and similar considerations, this is at least a point of view seldom found in discussions of state administration. The reviewer, whose experiences have been similar to those of the author, believes that this point of view is fundamentally sound.

EDWIN E. WITTE

*Madison, Wisconsin*

*The United States Employment Service.* By Ruth M. Kellogg. (Chicago: Univ. of Chicago Press. 1933. Pp. xiv, 192. $1.00.)

Public employment offices have long enjoyed the unanimous approval of all students interested in orderly social development. Somehow, however, they have in this country always fallen far short of expectations. While the first public employment office in the United States was organized as long ago as 1890 and the beginning of the United States Employment Service dates back to 1907, private employment offices in practically every state still outnumber the public offices and make many more placements. Less than half of all the states maintain employment services, and in most of these the offices are undermanned, their employees underpaid, and their placements almost entirely confined to casual workers.

The United States Employment Service aroused high hopes in the war time, when it was expanded to 350 offices and a personnel of 2,000 paid employees. Most advocates of public employment offices still regard this period as a conclusive demonstration of the value of such a service and cite the large number of placements reported at that time. In truth, these placement figures were utterly unreliable;[1] and it is debatable whether the war-time experience did not do more to retard than to promote the development of an efficient national employment office system.

Soon after the war (March, 1919) the refusal of Congress to make further large emergency appropriations to the United States Employment Service reduced this service to a mere skeleton, which consisted mainly of offices for placing farm labor in the wheat and cotton belts. In 1930 a veterans' division was organized with some additional independent offices, which specialized in placing veterans and their dependents. Following this, in April, 1931, the entire service was reorganized by Secretary of Labor Doak, after President Hoover had vetoed the Wagner public employment office bill. This reorganization brought in a new supervising director of the United States Employment Service, a considerably increased staff at Washington, and state directors in each state and the District of Columbia, and resulted in the organization of seven new divisions and of 96 new independent federal employment offices, serving all classes of labor. With this went an increase in appropriations from $383,000 in 1931 to $938,000 in 1932 and $765,000 in 1933.

This monograph is an account of the reorganized United States Employment Service based upon a field study conducted in the fall of 1932

[1] To the reviewer's personal knowledge, the placements reported during the last months of the war included so-called "factory placements," by which were meant persons hired by employers without coming to the employment offices. A protest against this practice brought the response that such counting of factory placements was in accordance with orders from Washington.

in eighteen states and an analysis of all official and semi-official reports and claims regarding the service. A faculty committee of the University of Chicago supervised the study and many others acquainted with the facts were consulted.

The picture presented is one of gross incompetency, tinged with some dishonesty. The reorganized United States Employment Service continued the practice begun in the war time of selecting all its employees without civil service examinations. The excuse was that no appropriate tests could be given as the service was a new one; but the net result was that few people with experience in employment work were employed. Instead all positions seem to have been regarded as political plums. Most of the responsible positions were filled by union officials or former union officials, and even the minor jobs went to people recommended by powerful politicians. In many places complaints were made of the political activities of United States Employment Service employees after they were placed on the federal payroll.

Marvellous claims were made by the supervising director regarding the placements of the reorganized service.[2] At the hearing on the new Wagner bill in 1932, the director stated that in the first eight months from April 1 to December 1, 1931, the reorganized service had made 1,634,698 placements, of which 861,653 were "placed directly by our service." Asked to present a detailed statement by offices of these placements, he failed to do so. In hearings on the Labor Department appropriation bill in December, 1932, he claimed 1,842,055 placements made by independent federal offices from April, 1931, to November, 1932, and presented a table showing the distribution of these placements by states but not by offices. Until January, 1932, *Monthly Reports of Activities* were published listing placements by offices. These credited independent federal offices with less than 100,000 placements in this entire period, but did not include most of the offices of the farm labor and veterans' division. Outrageous instances of padding were discovered in this survey. For instance, an office in a Kentucky city with four employees reported hundreds of placements each month, but was not listed in the telephone directory and had no sign, and the manager resented having unemployed persons sent to it. Most of the "placements" appear to have been made by the farm labor division, which functioned after the reorganization much as it did before and which counts as a placement every person passing through the office, although generally "referred" merely to places where harvest hands were needed rather than to particular employers.

Worst of all, the reorganized United States Employment Service

[2] These claims are repeated uncritically in Roger W. Babson, *Washington and the Depression, including the Career of W. N. Doak* (New York, 1932).

devoted its major attention to trying to destroy the state employment offices. The majority of the new independent federal offices were started in states having state employment services and most of them in direct competition with state offices. The salaries of the few federal employees in coöperating state offices, paid ever since the war time, were discontinued, while chair-warmers were continued in federal offices which made few, if any, actual placements. Attempts were even made by federal directors to get city councils to withdraw their support from state offices.

In all this there is little that is new, but the survey emphasizes the picture drawn of the United States Employment Service by Frances Perkins and other state labor department officials in the hearings on the Wagner public employment office bill. Names of individuals and offices are generally omitted, but the account nevertheless rings true.

Fortunately, all this is now water gone over the mill. Congress has enacted and President Roosevelt has signed the new Wagner public employment office bill, which contemplates a national employment service to be built up in coöperation with the states. There is every reason to hope that out of this will finally develop a really efficient, genuinely national system of public employment offices, despite the fact that the House of Representatives amended the Wagner bill to continue the exemption from civil service. Yet this monograph has distinct value. No worth while public service can ever be built up on falsehoods. Telling the truth about the United States Employment Service of the past does not detract from the type of service which, it is to be hoped, will now be developed.

Edwin E. Witte

*Madison, Wisconsin*

## NEW BOOKS

Baker, R. O. *The International Alliance of Theatrical Stage Employes and Moving Picture Machine Operators of the United States and Canada.* (Lawrence: Univ. of Kansas School of Business. 1933. Pp. 91.)

A doctoral dissertation which treats of one of the smaller crafts. Throws light on "home-rule" policy, methods of admission to unions involved, and jurisdictional disputes.

Chadwick, L. S. *Balanced employment.* (New York: Macmillan. 1933. Pp. viii, 234.)

Davis, E. *Minimum wage legislation in the United States: summary of fact and opinion.* (Princeton: Princeton Univ. Industrial Relations Section. 1933. Pp. 29.)

Hansen, A. H. and Sogge, T. M. *Occupational trends in Minnesota.* Employment Stab. Res. Inst., vol. ii, no. 4. (Minneapolis: Univ. of Minnesota Press. 1933. Pp. 29. 50c.)

Henderson, A. *Labour's foreign policy.* (London: The Labour Party. 1933. Pp. 35. 2d.)

Lorwin, L. L. *The American Federation of Labor: history, policies and prospects.* (Washington: Brookings Inst. 1933. Pp. xix, 573. $2.75.)

MAGNUSSON, L. and BOECKEL, R. M. *The worker and the World Economic Conference.* Econ. ser. presentation no. 27. (Chicago: Univ. of Chicago Press. 1933. Pp. 14. 15c.)

REYNOLDS, V. L. *The thirty hour bill: a statement before the United States Senate Judiciary Committee, January 25, 1933.* (New York: N.Y. Labor News. 1933. Pp. 40. 10c.)

STERN, B. *Labor productivity in the automobile tire industry.* U. S. Bureau of Labor Stat. Bull. no. 585. (Washington: Supt. Docs. 1933. Pp. 74. 10c.)

This bulletin, the latest in the productivity of labor series, continues the Bureau's earlier studies of productivity changes in the tire and tube industry. An intensive study of six representative plants reveals a continuing, rapid increase in productivity, and attributes it to a long series of changes in methods of manufacture. Spectacular improvements have been rare. For the six plants studied the productivity index jumped from 100 in 1926 to 149.51 in 1931. It is estimated that for these plants 71 per cent of the drop in employment from 1928 to 1931 is attributable to increased productivity; only 29 per cent to reduction in output owing to the depression and to improved quality of tires.

Detailed descriptions of the various operations and of the changes in them provide a basis for qualitative judgments regarding the type of labor displaced. Thoroughgoing analysis of wage changes would be necessary for a quantitative estimate.

A comparable index of output per dollar of invested capital would be of great interest.

The question is raised whether it is desirable to pass on to the consumer all gains in productivity. Should workers bear the brunt of technological changes?

LINCOLN FAIRLEY

TEAD, O. and METCALF, H. C. *Labor relations under the Recovery act.* (New York: McGraw-Hill. 1933. Pp. xii, 259. $2.)

VAN DER LELY. *Arbeidsorganisatie technocratie welvaart.* (Uitgevers-Assen: Van Gorcum. 1933. Pp. 200. f. 2.25.)

YODER, D. *Labor economics and labor problems.* (New York: McGraw-Hill. 1933. Pp. x, 630. $3.50.)

This volume, "intended as an introduction to the study of labor economics," is organized on familiar, one might almost say standardized lines. There is introductory matter on the "nature and significance of economic phases of modern culture." The emphasis is "placed on labor economics . . . rather than upon the specific social problems that arise therefrom." Three chapters are devoted to employment with suggestions for its stabilization. We find lengthy discussion of wage theories; of social insurance and other phases of labor legislation; of labor organization, policies and practices and legal status; of employer organization and of scientific management. The final chapter treats of possible steps toward industrial democracy. The conclusion is that the future will show various tendencies now observed to be part of "a larger though less distinct movement in a single direction, a movement toward increasing democratization of industry."

The book is carefully wrought and gives evidence of a wide acquaintance with the literature of the subject. An extensive list of references for sup-

plementary reading is supplied for each chapter together with an adequate index. The author has attempted to be completely inclusive rather than to develop and present a single philosophy and point of view.

CHARLES E. PERSONS

*Collective bargaining through employee representation.* (New York: National Industrial Conf. Board. 1933. Pp. viii, 81. $1.50.)

*Employee representation: selected references.* (Princeton: Princeton Univ. Industrial Relations Section. 1933. Pp. 6.)

*Factories and workshops: annual report of the chief inspector for the year 1932 (including a review of the years 1833 to 1932).* (London: H. M. Stationery Office. 1933. Pp. 134. 2s.)

*The I. L. O. year-book, 1932.* 3rd yr. of issue. (Geneva: Internat. Labour Office. 1933. Pp. xi, 459. $3.)

*Methods of providing rest and alternation of shifts in automatic sheet-glass works.* Internat. Labour Conf., 18th session. (Geneva: Internat. Labour Office. 1933. Pp. 21.)

*Reduction of hours of work.* Internat. Labour Conf., 18th session. (Geneva: Internat. Labour Office. 1933. Pp. 39.)

*La semana de 40 horas: informe presentado al Departmento Nacional del Trabajo.* Estudio de problemas nacionales no. 36. (Buenos Aires: Confed. Argentina del Comercio, de la Industria y de la Produccion. 1933. Pp. 13.)

*Unemployment prevention, compensation and relief: company, trade union, and public programs. Selected bibliography.* Suppl. 1931-1933. (Princeton: Princeton Univ. Industrial Relations Section. 1933. Pp. 23.)

## Money, Prices, Credit, and Banking

*Prices.* By GEORGE F. WARREN and FRANK A. PEARSON. (New York: Wiley. 1933. Pp. vi, 386. $3.00.)

In the conflict of opinions and the battle of pamphlets that raged in England during the price disturbances accompanying and following the Napoleonic wars, a yeoman part was played by two courageous and determined fighters whose names are inseparably linked in the history of economic thought—Thomas Tooke and William Newmarch. Today old issues raise their heads again, and new conflicts rage over the territory that was so bitterly disputed a century ago. The parallelism of war, crisis and depression during these two widely separated periods is so close as to be almost disturbing if one believes in the progressive evolution of humankind toward something a little closer to the angels. To this parallelism of objective conditions we must add another point of resemblance. Again there appears a team of doughty fighters, with strong opinions on the monetary issues that confront the present generation. For Thomas Tooke and William Newmarch we have George Warren and Frank Pearson. Like those hardy pamphleteers of a century ago, who played no small part in shaping the opinion of their day, Warren and Pearson have rendered services of high value to contemporary thought. They have done their share of the labor in the vineyards—the

arduous toil necessary to add to our factual knowledge of economic processes—and they have added to this a service of equal value in spreading light concerning the rôle and operation of our monetary mechanism.

The authors' aim in the present work is "to add something to the science of economics, something to the dissemination of knowledge, and to help individuals with their immediate problems." These ends are sought through increased knowledge of the laws of price. Widely diversified materials on production, prices, wages, taxes, wealth and debts are brought into the volume, though the major and oft-repeated thesis of the authors is a simple one. It is, briefly, that the price level is controlled by the supply of and the demand for gold, that the tie-up of commodity prices with gold has been a prime cause of the economic ills of mankind for the last hundred years, and that we must escape from this vicious influence, with its accompaniment of demoralizing inflation and still more demoralizing deflation, if we are to cure our present troubles and avoid the indefinite continuance of economic instability. This thesis is buttressed by records of gold production and stocks covering several centuries, by price index numbers covering a century and a half, and by index numbers of physical output extending back to the thirties of the last century. It is a formidable array. On the side of consequences, the effects of inflation and deflation on the status of different economic groups and on the working of the economic system are traced. The authors make of this an impressive and disturbing story, told with gusto and conviction. It drives forcefully home a sense of man's ineptness in handling his monetary problems.

It is a simple, straightforward thesis which the book expounds. Certainly, after reading this, the average man will look with fewer doubts on the erstwhile mysterious movements of monetary forces. There are no complexities in the monetary theory here set forth. Relations of cause and effect seem obvious and direct. Only man's obfuscating mind has made price problems abstruse and complex. "Truth," say the authors, "is always simple. Ignorance is mystical."

Yet something more should be added, in even a brief appraisal of this provocative book. With all deference to the clarity of the exposition, and with full recognition of the virtues of simplicity in such an exposition, one must still recognize a limit to the degree of simplification which may be employed in describing the processes of a complex world without loss of touch with reality. In my opinion the authors have gone beyond this limit. Space limitations prevent extensive demonstration of this point, but several examples may be given.

Heavy weight is placed by the authors, in supporting their thesis, upon index numbers of prices and production covering, respectively, one

hundred and fifty and one hundred years. I do not believe that due attention is paid to the difficulty (perhaps the impossibility) of measuring such movements over such periods with sufficient accuracy for the purpose in hand. Again, there are numerous categorical statements which are far from citing accepted truths. We hardly know enough, as yet, about business cycles to warrant the flat statement that the business cycle is "the algebraic sum, properly weighted," of "a large number of cycles of different length for wheat, hogs, sheep, poultry, cattle, cotton and automobile production, for building construction and for prices of pig iron, stocks, bonds, etc." There are many who would doubt that the recession of 1929 and the ensuing depression were due solely to a shortage of gold resulting from the general resumption of the gold standard and the accompanying efforts of different countries to build up their gold stocks. One may go far with the authors in believing that price instability has been a major cause of economic distress during the last century, and that national price structures have been too closely and arbitrarily linked with a single commodity, but one may yet feel that their diagnosis is greatly over-simplified, and that the remedies for current economic ills may be more difficult than their exposition indicates.

Ortega y Gasset, in *The Revolt of the Masses,* writes that all thinking is exaggeration. All generalizations simplify and in some degree distort reality. We must exaggerate and simplify in order to say anything about the tangled world in which we live. Qualification and reservation are the traditional retreats of academic minds. It is the more refreshing, then, to find a straightforward and incisive argument, all in whites and blacks, with only saints and sinners in the cast. In a complex and troubled time it is a grateful simplification that we find here. There is much truth in it. And yet, I venture, much relevant truth is left out of this compelling exposition.

FREDERICK C. MILLS

*Columbia University*

*The Bank for International Settlements at Work.* By ELEANOR LANSING DULLES. (New York: Macmillan. 1932. Pp. xii, 631. $5.00.)

A history of the Bank for International Settlements during the early years of its operation must, to be a satisfactory piece of work, almost necessarily be written by one who has been on the scene of action and who has had access to material and information which is available neither to the public at large nor to the special student of monetary and banking activities. Miss Dulles, by virtue of her close contacts with officials of the B. I. S. and her access to original source material at Basle, together with her ability to write clearly and convincingly, was especially

well equipped to undertake this task. The volume under review is a valuable contribution to the literature of banking.

The material included in the study is presented in part on a chronological, in part on a topical, basis. Thus Chapters 1-6 inclusive deal with the origin of the Bank, its organization, its economic and legal nature, and its tasks and accomplishments from May to November, 1930. Chapters 7-9, on the other hand, deal in detail with deposit methods, the utilization of funds by the Bank, and the development of policies during this period. Returning to the chronological method of presentation in Chapter 10, Miss Dulles discusses the expanding interests of the Bank in what is essentially a second stage of development in 1931. This is followed, in Chapter 11, by a discussion of the most pressing problem presenting itself in the second stage, the problem of international clearing as seen in 1931. Two of the remaining six chapters are devoted to reparations, two to the credit crisis and the gold problem, and two to central bank cooperation and the probable future of the B. I. S. The text is followed by a long appendix (pp. 509-612) containing a chronological table of events relating to the B. I. S. and to reparation, the monthly financial statements of the Bank from May, 1930, to May, 1932, and the trustee statement of April 15, 1932, the convention respecting the B. I. S., the constituent charter and statutes of the Bank, and an exhaustive bibliography.

In view of the detailed character of the book, the reviewer is unable to do more, in the space at his disposal, than to present a few general observations on the nature of the work. The study is more than a history of the B. I. S. It comes nearer, in many ways, to comprising a combination theory and history of international financial problems during the two-year period under consideration. The topical chapters especially, of which those devoted to the clearing problem, reparation theories and aims, and the gold problem may be given particular mention, are much of the time more concerned with general international monetary and financial problems than with the specific work of the Bank. It is true, of course, that all of these matters were brought to the attention of the Bank's management and formed the bases of many discussions by directors and officers of the B. I. S. Occasionally, however, Miss Dulles becomes so absorbed in setting forth the theories and problems involved that the discussion seems but remotely connected, if at all, with the title of the volume.

In the judgment of the reviewer, these occasional departures from the strict confines of the title have in no wise diminished the value of the book. On the contrary, they have served to break the monotony which a straight recital of Bank activities would have entailed, and to furnish the reader with a series of stimulating discussions of international financial

problems. In a sense, in fact, these digressions are not irrelevant to the subject at hand, since they doubtless represent, as nearly as may be, the mental processes and verbal utterances of members of the management and directorate of the B. I. S. at various times.

With regard to the work of the Bank itself, attention should be called to the marked change that occurred in the nature of the Bank's activities as a result of the credit crisis of 1931, and the possible effect of this change on the future of the institution. "The Bank transformed itself in a few weeks into a different type of organization. It had been a clearing house and a reparation agent, with large liquid funds. It became an advisory body and in a sense an investment trust, handling large loans for distressed Central Banks, which, although liquid in form, could not be quickly realized" (pp. 411-12). This far-reaching change in the nature of activities and functions naturally leads to the question of what the future character of the Bank will be, when more settled conditions shall have emerged. Granting that the Bank will probably play an important part in helping to reëstablish sound currencies, when this has been accomplished, there are two possibilities. "One is that the Bank shall become mainly an academic or theoretical center of discussion, a club, a laboratory, a place of meeting. The second is that while fulfilling important functions in bringing together Central Bankers and in disseminating information, it should also have large funds to handle, both for the sake of gaining experience and also because it could exert a larger influence in this way" (p. 501). Which of these possibilities will materialize, it is impossible to say. That the Bank should at least continue to serve as a means of central bank coöperation seems essential. For, as Miss Dulles points out, "The choice is . . . between reasonable coöperation and a straight nationalism in economic policies which would mean a decline in the standard of living everywhere" (p. 453). It is to be hoped, however, that the Bank may be destined to play the larger and more significant rôle in the international financial relations of the future.

Frederick A. Bradford

*Lehigh University*

*The Federal Reserve Act: Its Origin and Problems.* By J. Laurence Laughlin. (New York: Macmillan. 1933. Pp. xii, 400. $3.50.)

Laughlin's fidelity to detail, discontent with the superficial, and general high scholarship have always compelled attention for his works even among economists of differing theoretical predilections. The latest book of the author maintains his earlier standards and will be read with interest both by those who desire to know more about the historical antecedents of the Federal Reserve act and by those mainly concerned with present monetary problems.

That part of the volume which deals with the origin of the reserve system makes up about two-thirds of the main statement. Herein Laughlin explains his varied relationships with men who played prominent rôles in the campaign for banking reform, including Warburg, Willis, Glass, Wilson, Aldrich, Davison and Forgan. Laughlin's responsibilities proceeded largely from the fact that he was in charge of the educational work of the non-partisan National Citizens' League. Now that Willis, Owen, Glass and Warburg have all published, it is valuable to have Laughlin's recollections of the incidents which preceded the enactment of the federal reserve legislation.

In the second part of the book, which deals with present problems, Laughlin insists upon the necessity of adhering to "time-tested" principles of money and credit. He strives earnestly to demonstrate the importance of distinguishing clearly between the media of exchange and the standard of value of a country's currency system. Prices, says Laughlin, merely express the value relationship of the good or the service to a given quantity of the standard commodity. After prices are thus fixed, bank credit and other exchange media are ordinarily created in the necessary volume to effect exchanges. The author therefore insists that attempts to push the average of prices upward by increasing the quantity of the exchange media are doomed to failure.

In this way Laughlin pays his respects to those who advocate at the present juncture forced levies of fiat money or of central banking credit. But, in so doing, the reader cannot but wonder if Laughlin is not supplying ammunition to that other camp of currency reformers which insists at the present time upon a sharp reduction in the gold content of the dollar. On page 222 Laughlin says: "Prices are expressed in the standard; change the value of the standard and prices will be changed accordingly." This seems to agree with the position long held by the reviewer that only the Laughlin doctrine could sustain the position of those devaluationists who maintain that by manipulating the gold content of its currency unit any country *at any time* can establish any internal price level it desires. For, if prices are determined in any other way than Laughlin maintains, the potency of devaluation must depend upon the nature of existing circumstances. In other words, rival price doctrines inevitably lead to the conclusion that in some situations devaluation would tend to produce far different consequences than in other situations.

Take for instance the assertion that we need to reduce the content of the gold dollar to increase the working reserves of a central banking system. If this be the contention much depends upon such factors as the previous state of the banking system's reserves, as well as upon the ability of the investment market to supply an outlet for more credit in

new capital undertakings. If, on the other hand, reliance is placed on the effect of devaluation on the foreign exchanges, there must be consideration of the importance of the foreign market for a country's exports, of the likelihood of tariff reprisals by other nations, and of the stability of the gold standard in foreign currency systems. Or, if dependence is placed in "psychological" forces there must be thorough analysis of the timing of the devaluation move. A flight from the dollar might express itself largely in "anticipatory" buying, but if such buying came at the wrong time, the subsequent reaction might be even greater than the initial advance.

The reader can be confident that Laughlin is not writing for the purpose of advancing the cause of devaluation. He seems to assume that a policy of devaluation is absolutely out of the question. But is it? When national bankruptcy is threatened, the sacredness of any particular monetary standard may not be universally admitted. As one who laments a present tendency to relegate central banking operations to a rôle entirely subsidiary to that of "monetary" policies, the reviewer regrets that Laughlin did not take more seriously the implications of his doctrine with respect to the present move for gold devaluation.

Harold L. Reed

*Cornell University*

NEW BOOKS

Baird, F. and Benner, C. L. *Ten years of federal intermediate credits.* (Washington: Brookings Inst. 1933. Pp. xvi, 416. $2.75.)

In 1920-21 political pressure was exerted to provide for credit needs of six months' to three years' duration, *i.e.*, too long for federal reserve and too short for federal land bank accommodation.

The authors propose to explain: (1) inception of the federal intermediate credit banks by the Agricultural Credits act of 1923; (2) growth of intermediate credit banks; (3) operating experiences; (4) problems raised; and (5) place in our credit structure.

Part 1 reviews intermediate credits prior to 1923, takes us through tortuous politics attending the Act, and concludes with the formation of intermediate credit banks. Part 2 furnishes detailed operating experiences. Confined to rediscounts, the intermediate credit banks have lent to banks, credit corporations, and coöperatives. With restrictions upon intermediate credit bank interest rates (less than one per cent over cost of funds, p. 164) and upon those charged by discounters, operations were restricted to mostly "riskless" paper, thereby limiting the usefulness of intermediate credit banks.

Part 3, "Evolution and tendencies," mentions: paper under six months now eligible (p. 311); decline of rural commercial banking; and "idea of an intermediate credit system has given way to that of an agricultural credit system" (p. 312). After emphasizing the freedom of intermediate credit banking from "runs" (p. 315), its geographical diversification and non-charitable purpose, a deserved diatribe is undertaken against the

"planlessness" of haphazard local mechanisms connecting these banks with borrowers (p. 319). An addendum narrates the merger of intermediate credit banks and other agencies into the Farm Credit Administration (1933). Here fundamental distinctions should be between "loans for relief," and those intended as repayable.

The authors have, in coöperation with a committee composed of H. G. Moulton, C. O. Hardy and E. G. Nourse, turned out a most useful reference work, particularly if, as seems not unlikely now, rediscount facilities (other than unused federal reserve emergency powers) are provided for "intermediate" industrial credits.

Richard A. Staderman

Beckhart, B. H. and Smith, J. G. *The New York money market*. Vol. II. *Sources and movements of funds*. (New York: Columbia Univ. Press. 1932. Pp. xi, 395. $5.)

Beckhart, B. H. *The New York money market*. Vol. III. *Uses of funds*. (New York: Columbia Univ. Press. 1932. Pp. xiii, 475. $5.)

Beckhart, B. H., Smith, J. G. and Brown, W. A. *The New York money market*. Vol. IV. *External and internal relations*. (New York: Columbia Univ. Press. 1932. Pp. xiii, 606. $5.)

These three volumes form the main body of a comprehensive study of the New York money market, which is introduced by the first volume (*Origins and Development*) by Margaret G. Myers.[1] In the space available it will be impossible to do more than to outline the subject matter of these volumes, nor is more comprehensive treatment necessary with respect to such carefully prepared and well-documented studies as those under review.

Volume II, devoted to the sources and movements of funds of the New York money market, is divided into four parts, an introduction and a section on the basis of money market funds by Professor Beckhart, followed by treatments of the concentration of funds and transactions in the New York market and the ebb and flow of money market funds, by Professor Smith.

More specifically, in Part 2, Professor Beckhart analyzes member bank reserve requirements and policies, the relation of the monetary gold stock and gold movements to member bank reserves, the relation of currency and deposit changes to member bank reserves, and the federal reserve statement.

In Part 3, Professor Smith presents a statistical analysis of the concentration of funds in the New York money market, with particular reference to bankers' balances. His study includes an analysis of the concentration of loans, the concentration of transactions, and the concentration of deposits. The conclusions reached are "that concentration . . . continues to exist to about the same relative degree as before 1914 and that so far as the financial predominance of New York City is concerned, the federal reserve system has apparently had little effect. To a certain extent the continued concentration of loans and deposits in the money market has been a function of the unit type of banking system existing in the United States" (iv, 572).

In analyzing the ebb and flow of funds from and to New York City, Pro-

[1] See the American Economic Review, March, 1932, pp. 150-151.

fessor Smith considers New York's domestic and international balance of payments and relates the movement of funds to these two sets of data. The effects of government payments, which are of marked significance, are also demonstrated. It is shown "that New York tends to lose funds cumulatively to predominantly exporting districts . . . and tends to gain funds from highly industrialized sections" (iv, 574). It is also shown (ii, 356) that New York tends to gain funds through government transfers and note clearings, and to lose funds through transit clearings.

Volume III, written entirely by Professor Beckhart, deals in exhaustive fashion with the uses of funds in the three main open markets (other than the market for government securities), the brokers' loan market, the commercial paper market, and the market for bankers' acceptances. In dealing with brokers' loans, Professor Beckhart demonstrates that the basis of funds used in this and other open markets consists of member bank reserves, as does the basis of funds used in the customer markets. The idea that funds invested in brokers' loans may be painlessly withdrawn for commercial uses is properly held to be a myth; and control by the federal reserve over an increasing total of such loans is advocated on the ground that a large concentration of brokers' loans in the New York market impairs the quality of bank credit, even though it may help to convey funds to industry in part in indirect fashion.

The commercial paper market is described in detail and is shown to be a highly useful adjunct of a unit banking system, the need for which would largely disappear with any widespread increase in branch banking in this country.

The treatment of the acceptance market is exceedingly thorough, containing a wealth of analysis and description. It is concluded, with reference to this market, that the policy of fixing artificially low rates by the federal reserve has passed its period of usefulness, and that the market should be made to stand on its own feet by means of higher buying rates for acceptances at the reserve banks. Professor Beckhart also inclines toward a more rigid interpretation of legitimate acceptance business which would confine it more closely to strictly self-liquidating transactions.

In Volume IV, Professor Beckhart analyzes and criticizes federal reserve policy in respect to brokers' loans (Part 1), Professor Brown treats the relations of the government to the money market under the federal reserve system (Part 2), and Professor Smith presents another statistical analysis, dealing in this instance with money market periodicities of the seasonal and cyclical variety (Part 3). Part 4 contains an excellent summary of the material and conclusions contained in all of the volumes. The different topics covered in this volume are adequately treated and require little comment or criticism.

Regarding the work as a whole, there can be no doubt that it comprises a valuable source of information and analysis of the New York money market. If there is any objection to the study, it is, in the reviewer's opinion, that it is almost too detailed, so much so as to result at times in spreading the material covered a little thinly. This fault, if it can be called such, is, however, decidedly less subject to censure than would be a scanty treatment with numerous omissions.

It is unfortunate, although no fault of the authors, that the passage of the Banking act of 1933 has wrought certain changes with respect to the

concentration of funds in New York, thus altering the validity of some small portion of the analysis as regards existing conditions. For the most part, however, recent legislation has been of such a nature as not to invalidate the conclusions set forth in the great bulk of the study.

Frederick A. Bradford

Del Vecchio, G. *Cronache della lira in pace e in guerra.* (Milan: Treves. 1932. Pp. vii, 515. L.30.)

Ostensibly a history of the lira, this volume is actually a general treatise on the theory of money, credit and exchange with illustrative material drawn from the drama of the lira during the two stirring decades from 1911 to 1932. As one turns the pages of the book the lira of 1911, like the carefree youth of the day, suddenly is plunged into the awful gyrations of the World War to emerge four years later badly battered, much scarred, and staggering under the burdens thrust upon it. The virulence of a new social order rebuilds the tottering financial structure and the lira of days gone by (though somewhat changed in stature) is born again of a golden mother. The terrific forces which play upon a financial structure are slowly, painfully, and methodically mastered, yet one senses an alarming calm as the end of the discussion approaches.

Although financial histories are prone to be overly emphatic of the *justness* of the policies pursued by the author's own country, this book is surprisingly objective in viewpoint. Professor Vecchio, recognizing that trade and fiscal policy form an indestructable link between nations' fortunes and moneys, devotes much critical attention to the fiscal and central bank policies of the other major countries of the world. Somewhat more critical attention to the social effects of money and credit stresses, especially in Italy, would have added to the value of the volume.

Floyd F. Burtchett

Bouniatian, M. M. *Crédit et conjoncture.* (Paris: Giard. 1933.)

Brown, W. *The inherent function of money.* (Chicago: McAllister Pub. Co. 1933. Pp. 121. $1.)

Campbell, H. O. *Socialized money.* (Seattle: Author, 1525 45th Ave., S.W. 1933. Pp. 160.)

Advocates the abandonment of our present "non-social" money system and the substitution of stabilized wealth certificates issued in payment of cost of government.

Cassel, G. *Die Krise im Weltgeldsystem.* (Berlin-Charlottenburg: Buchholz und Weisswange. 1933. Pp. 113.)

Davidson, D. *The rationalization of the gold standard.* (New York: Stechert. 1933. Pp. 74. $1.)

Edwards, D. S. *A critical study of the gold reserves and the monetary standard, with special reference to the position of the Bank of England and an outline of a proposed monetary system for the British Commonwealth of Nations.* (London: P. S. King. 1933. Pp. viii, 148. 5s.)

Farnham, D. *The effect of currency inflation.* Finan. manag. ser. 43. (New York: Am. Manag. Assoc. 1933. Pp. 19. 75c.)

Fraser, H. F. *Great Britain and the gold standard: a study of the present world depression.* (New York: Macmillan. 1933. Pp. xi, 206. $3.)

Gluckstadt, H. *The mechanism of the credit standard: practical proposals*

*for a new monetary standard.* (London: P. S. King. 1933. Pp. xiii, 111. 7s. 6d.)

GOLDSCHMIDT, R. W. *Bankkredit und Kreditbanken in den Vereinigten Staaten, 1920-1932.* Veröffentlichungen des Instituts für Finanzwesen an der Handels-Hochschule Berlin, Band 4. (Berlin: Junker und Dünnhaupt. 1933. Pp. 141. RM.8.)

HEILPERIN, M. A. *Monnaie, crédit et transfert: considérations théoriques sur la monnaie du système monétaire de la politique de crédit des règlements internationaux.* (Paris: Recueil Sirey. 1932. Pp. xiii, 142.)

This volume represents an interesting study on the functions and value of money and credit from the national and international point of view. The first three chapters deal primarily with the fundamental principles of money and credit and give a good summary of the subject. The most interesting parts of the volume are Chapters 5 and 8, the former dealing with the question of managed currency and the latter with the transfer problem. The author points out the fact that the question of currency management is not new, having been considered by economists for several decades. He rightfully maintains that a managed currency, while possible on a national scale, becomes increasingly difficult from the international aspect unless there exists close coöperation among the central banks.

After analyzing carefully the pros and cons of management of the currency, the author comes to the conclusion that its international application can be made effective: to straighten out the business cycle curve; to alleviate business cycle movements; to alleviate seasonal movements, and to prevent sharp accidental movements of prices. Given political stability and the willingness of the various central banks to coöperate, the author points out how this can be achieved. The chapter on the transfer problem offers a careful analysis of the difference between the capacity of a nation to pay and its capacity to transfer. Although this problem has been fully discussed in the so-called Dawes report where the difference between payment in local currency and transfer has clearly been demonstrated, the author goes even farther and shows that in spite of this difference there is a connection between the two problems and that the cost of production in a country can aggravate or alleviate the transfer problem.

Looked upon from the theoretical point of view, the author seems to be correct. However, he does not take into consideration the fact that cost of production does not mean ability to export and that under present conditions import restrictions and foreign exchange regulations are more important than the cost of production. The author, however, states correctly that so long as creditor nations are unwilling to accept goods or services, there can be no solution of the transfer problem.

The last section of the book deals with the outlook for the future. The author believes that the old gold standard is a thing of the past and that the future will see a combination of managed currency and a modified gold standard. The rôle of gold, however, will be merely a means of settling marginal international balances.

M. NADLER

JAIN, L. C. *The monetary problems of India.* (New York: Macmillan. 1933. Pp. 232. $3.75.)

LE BRANCHU, J. Y. *Essai sur le gold exchange standard.* (Paris: Recueil Sirey, 1933. Pp. ii, 270. 35fr.)

Leong, Y. S. *Silver: an analysis of factors affecting its price.* (Washington: Brookings Inst. 1933. Pp. 168.)

Liepmann, L. *Der Kampf um die Gestaltung der englischen Währungsverfassung, von der ersten bis zur zweiten Peel's act, 1819-1844 (Currency Principle und Banking School). Ein Beitrag zur Geschichte des englischen Geld und Bankwesens.* (Berlin: Junker und Dünnhaupt. 1933. Pp. vi, 238.)

Lombard, L. *L'or, regulateur de la production* (Paris: Recueil Sirey. 1933. Pp. 128. 15fr.)

Mallon, G. W. *Bankers vs. consumers.* (New York: John Day. 1933. Pp. 155. $1.50.)

Milhand, E. *A gold truce.* (London: Williams and Norgate. 4s. 6d.)

Myrdal, G. *The cost of living in Sweden, 1830-1930.* (London: P. S. King. 1933. Pp. 251. 10s. 6d.)

This excellent study of the cost of living in Sweden over the course of a century more than confirms the high opinion in which Swedish economic science is held. From the voluminous price data with which Sweden abounds, Professor Myrdal has constructed two cost of living indexes to cover the period from 1830 to 1913; and from then on he utilizes the index of the Social Board. These country-wide indexes were built up from indexes of prices for 25 food commodities, about 30 clothing items, fuel, lighting and the cost of building. These prices were first collected locally and then weighted according to population into a country-wide average. These averages were then combined, in the main, on the basis of typical budgets prevailing in (a) the period 1840-1860, and (b) the period 1880-1900. Since the Social Board used still another set of budgets for the period since 1914, the study thus avoided most of the pitfalls presented by shifting standards of living during the century.

From this material the combined index indicates the following movement of living costs, which for the sake of abbreviation are first given only in terms of averages for the decades prior to 1910:

| *Period* | *Average index* | *Period* | *Average index* |
|---|---|---|---|
| 1831–40 | 76 | 1871–80 | 109 |
| 1841–50 | 78 | 1881–90 | 98 |
| 1851–60 | 94 | 1891–1900 | 97 |
| 1861–70 | 100 | 1901–10 | 108 |

As carried on for the subsequent years, the index in terms of the 1861-1870 base is as follows:

| *Year* | *Index* | *Year* | *Index* |
|---|---|---|---|
| 1911 | 112 | 1921 | 275 |
| 1912 | 119 | 1922 | 223 |
| 1913 | 119 | 1923 | 207 |
| 1914 | 121 | 1924 | 207 |
| 1915 | 139 | 1925 | 211 |
| 1916 | 157 | 1926 | 203 |
| 1917 | 198 | 1927 | 201 |
| 1918 | 276 | 1928 | 202 |
| 1919 | 319 | 1929 | 200 |
| 1920 | 321 | 1930 | 194 |
| | | 1931 | 187 |

The completion of this work covering a century of living costs is, therefore, a unique achievement which is deserving of great praise. We shall await with interest the subsequent studies of the University of Stockholm, as conducted by Professor Bagge and others, which will measure the movement of wages and of the national income during this period. All this material when completed will be invaluable for the record of the economic history of Sweden during the last century and it should also furnish the raw material for a realistic attack upon the forces governing production, the rate of wages and of interest and the distribution of the national income. For it is by the aid of just such material as this that economic theory may move out from its deductive scaffolding into a bold and fruitful analysis of the forces governing production and distribution.

PAUL H. DOUGLAS

NEIFELD, M. R. *The personal finance business.* (New York: Harper. 1933. Pp. xviii, 490. $5.)

The author deals with a subject about which comparatively little has been written and presents a formidable array of statistics in defense of personal loan companies. He believes that finance companies are "clothed with a public interest" and should be regulated accordingly.

The author favors strongly the uniform small loan acts which set the rate charged at a maximum of 3½ per cent a month. In the chapter on costs, a comparison of the rate charged by finance companies with the relatively low rate asked by commercial banks finds the personal loan charge to be warranted. This contention is based upon facts that the companies extending credit for small amounts are retailers rather than wholesalers of credit, that they hold no deposits to enlarge the lending resources of the stockholders, that they operate at a bigger gross expense, and that they have been forced out of business when, as in New Jersey and West Virginia, their rate has been arbitrarily lowered.

Interesting data are presented on small-loan borrowers with reference to their purposes, needs, income, savings, insurance, and lodge membership. While recognizing the weakness of averages, the author presents the balance sheet of the typical family in the field served by the finance companies: total assets, $3,200; cash on hand, $125; investments, $325; current indebtedness, $190; fixed obligations, $500; approximate net worth, $2,500. These data are presented to show that the average borrower is not among "the down-trodden, the exploited, the ignorant and the fearful," and to demonstrate "the economic sanity of Mr. and Mrs. Average Family." It is difficult to understand why a family able to show so creditable a balance sheet should knowingly pay 42 per cent per annum for credit.

The author considers casually the implications of finance company loans and cyclical fluctuations in business. He takes Professor Diamond to task for asserting that the increased borrowings of people on the downward movement of the cycle tend to prolong depression, but his refuting arguments and data are far from convincing.

Brief mention is made of the activities of loan sharks and wage buyers, but no recognition is made of abuses which have arisen in regulated companies. Such abuses include the finance companies' attempts to induce people to borrow unnecessarily, and the seemingly deliberate efforts to prevent the borrowers' understanding of the true costs involved.

The author seeks to establish the social function of finance companies when he states that loans made by them relieve suffering, meet emergencies, and permit the borrowers to enjoy immediate benefits. In addition, he asserts that individuals or families have the same right to credit as do business units, because the distinction between productive and consumptive loans is unsound since all loans are productive if wisely directed. One wonders if the bulk of loans made by finance companies are sufficiently "productive" to yield the borrower a return which justifies a 42 per cent charge per annum.

J. H. Taggart

Papi, G. U. *Escape from stagnation: an essay on business fluctuations.* (London: P. S. King. 1933. Pp. vii, 165. 6s.)

Pirotte, S. *La clause-or devant la loi et les tribunaux.* (Paris: Recueil Sirey. 1933. Pp. 210.)

Rist, C. *Essais sur quelques problèmes économiques et monétaires.* (Paris: Recueil Sirey. 1933. Pp. xvi, 501. 70fr.)

Rollitz, H. *Verfall und Wiederaufbau der französischen Währung seit dem Kriege (1914-1931).* (Berlin: Carl Heymann. 1933. Pp. 293.)

Soddy, F. *Wealth, virtual wealth and debt: the solution of the economic paradox.* 2nd ed. (New York: Dutton. 1933. Pp. 320. $2.50.)

————. *Money versus man: a statement of the world problem from the standpoint of the new economics.* (New York: Dutton. 1933. Pp. viii, 121. $1.25.)

The first of these books, originally published in 1926, sets forth in detail the author's position with regard to money, wealth and debt. The second is a diminutive counterpart of the first, intended as a popular primer on the subject. In the limited space at my disposal, it is impossible to do more than present Professor Soddy's case in bare outline. His proposal is that the state should maintain what he calls the virtual wealth of the community (*i.e.*, the value of goods which people forego in order to hold a certain amount of immediate purchasing power in the form of money) at a constant level by stabilizing the price level of commodities through the issuance or retirement of money. Banks should no longer be allowed to create money by making loans or investments, as at present, but should be required to hold 100 per cent cash against their checking deposits. Long-term loans should be redeemed by the state on an amortization basis, and foreign lending should be discouraged. Gold should be used, as a commodity, to pay international balances, but not at a fixed rate as at present. Professor Soddy considers the control of the supply of money the most important prerogative of the state, and objects strenuously to the state's abdication in favor of the bankers who create money for usury.

Perhaps the chief contribution of these volumes is the fact that they call attention sharply to certain undeniable evils in our existing financial set-up. Although I am unable to share the author's horror at the creation of check currency by the banks, if the banks are soundly operated, his discussion of debts and interest contains much food for thought. His diatribe against the unsatisfactory definitions of wealth used by economists is also stimulating, although his own definition is far from satisfactory.

F. A. B.

STEINER, W. H. *Money and banking.* (New York: Holt. 1933. Pp. x, 1931. $3.75.)

VOGEL, E. H. *Nationale Goldkernwährungen und öffentliches Kreditmonopol als Grundlage eines Weltgoldsystems: Programm einer sozialorganischen Reform des Geld und Kreditwesens.* (Berlin: Junker und Dünnhaupt. 1933. Pp. xii, 400. RM. 17.)

WOLFF, S. *Frankreich und sein Gold. Der Anteil der französischem Finanzmacht an der Weltkrise.* (Frankfurt a. M.: Societätsverlag. 1933. Pp. 149.)

YOUNG, B. E. *Bank cost control.* (New York: Rand McNally. 1933. Pp. xii, 299.)

*Monetary policy and the depression. First report on international monetary problems by a group of the Royal Institute of International Affairs.* (New York: Oxford Univ. Press. 1933. Pp. vi, 128. $2.75.)

A group of 14 members of the Royal Institute of International Affairs which had as chairman Sir Charles Addis and included among its number Clay, Robertson and Salter, sponsored this first report as "an objective and balanced statement of the principal elements which must be taken into account in discussing the international monetary situation." Naturally a report of only 80 pages, leaving out the appendices, must be in the nature of an outline and an outline to be signed by 14 individuals must be colorless just where the reader wants color. It is, however, an exceedingly convenient outline.

In the second and third chapters are briefly characterized with accompanying tables the essential conditions of this depression. The group considers as one of them an undue decrease of capital development compared with savings. This might be questioned. At least in the United States our corporations have been saving us from such a condition by increasing their dividends in 1930 and paying out a larger total in 1932 than they paid in 1928. I suppose the most significant of the chapters is the fourth, "measures against depression: the theoretical setting," in which are expounded and contrasted the monetary view, the structural view and the middle view of Professor Ohlin—for the space used, a beautiful piece of exposition. There are several useful appendices. The one on interest rates centers in an attack on short-time financing by the British government. What should we say of our own? Another appendix gives a table of the British state controlled capital expenditures. Finally there is the very desirable table of the exchange restrictions in various countries.

OLIN INGRAHAM

*National banks: Table J, individual statements of condition of national banks at the close of business December 31, 1932.* (Washington: Supt. Docs. 1933. Pp. 219. 15c.)

## Public Finance, Taxation, and Tariff

*The Economic Basis of Tax Reform.* By HARRY G. BROWN. (Columbia, Mo.: Lucas Bros. 1932. Pp. xii, 359.)

Addressed particularly to "the younger students and teachers of economics" who, the author feels, are quite likely to accept and repeat timeworn phrases and theories without questioning their soundness, this

book is, in the main, a further development of the author's previously expressed views on the subject of land taxation.

In Chapter 1, as in other parts of the book, Professor Brown draws freely from his earlier works. Following a brief orthodox treatment of the determination of the shares in distribution, he develops his definitions of earned and unearned income. Earned income includes the wages of labor (including self-employed labor) and interest on capital, according as they are received for an "equivalent service rendered." Unearned income includes the rent of land "whether used in socially desirable ways or not" and returns to capital and labor used in "anti-social and exploitive ways." Inequality of earned incomes is justified because of its effect upon productive efficiency, survival of the best, and accumulation of capital.

Chapter 2 is a well-directed attack upon the movement to transfer part of the tax burden on "real estate" to other bases. Heavier taxation of intangibles (if successful) would relieve only the individual owner of unencumbered property, and in the case of other owners (corporate and individual) it would amount to a "second tax on the same basis of material property." Taxation of commodities and incomes operates, in part, to relieve land and, consequently, makes home owning as well as the rise from the position of tenant farmer to owner more difficult for the following reasons: (1) such taxes are to a large extent a burden on labor income; (2) to reduce taxes on land is to increase its saleable value; (3) a lower rate of return to capital as a result of increased taxes on capital income would increase the capitalized value of land rent; and (4) such tax relief would lend encouragement to land speculation and thus raise land values. Moreover, the slogan, "tax relief for real estate," does not distinguish between capital and land, and so it proposes to give equal relief from property taxation to the sources of an earned and an unearned income.

In the third chapter Professor Brown develops his thesis more fully. "Any study of taxation policy ought to envisage *all* of the important effects likely to result from a given kind of tax or tax system." Thus, "societal welfare" is advanced as a guiding principle to supplant the "communistic" principles of ability to pay, equality of sacrifice, and least sacrifice. Consistent with his definition of unearned income and his position that high land values are "an economic and social calamity," he makes out an excellent case for *gradually* increasing the tax burden on land "for as much revenue as it could be made to yield." Thus, although an able defender of the single tax (and he does defend it in the last chapter), his special plea in this volume is only for increased taxation of land. In this and the succeeding chapter will also be found what is probably

as strong an argument as can be made against the sanctity of "vested rights."

The reviewer cannot but feel that this stimulating book, so admirable from the standpoints of its logic, social philosophy and sincerity, is unfortunately somewhat marred by a causticity in the criticism of other writers. Particularly is this true in the fourth and last chapter on "A complex of some economists," the complex being, presumably, an anti-single-tax bias. Correction of errors of famous students, whose constructive contributions to a growing science infinitely outweigh in number and influence whatever mistakes they may have made in reasoning or historical reference, hardly calls for the use of sarcasm and ridicule.

Ward L. Bishop

*Lehigh University*

*The Valuation of Real Estate.* By Frederick M. Babcock. (New York: McGraw-Hill. 1932. Pp. xii, 593. $5.00.)

Mr. Babcock divides his treatment into seven parts and adds an appendix. In the first part, an attempt is made to relate problems of real estate valuation to economic theory. It is here (Chapter 3) that the basis is laid for one of the most insistent contentions of the entire work, namely, that cost bears little necessary relationship to value. The proposition is argued particularly on the basis of peculiar real estate characteristics: most types of improvements *on* and *to* land are such as to necessitate a substantial period of time; so the amount invested in the improvement may in the long run prove to be much more or much less than the income-producing capacity of the property amounts to. Moreover, the difficulties in using costs as a basis are enhanced by the movements of the business cycle to which real property values are highly sensitive (Chapter 2).

On the basis of the theoretical background laid in Part I, Part II on "Valuation data" proceeds to insist that records of sales are not the only kind, or even the most important kind, of information the appraiser must collect in making a valuation. The necessary information pertains mainly to city growth; productivity of the property; investment considerations, both as to the general market and as to the specific property involved; costs; and description of the property. The various sources of such data are indicated and the general significance of the information suggested.

In Parts III and IV on theory and methods of valuation, the author sets forth again the fundamental character of the dependence of real estate values on income and shows in outline the technical methodology involved. It is in connection with the development of methodology, including classification of properties for the application of alternative

methods, that Mr. Babcock has made perhaps his most valuable suggestion; but many of the new ideas have been published in the author's University of Michigan Bureau of Business Research study, ***Real Estate Valuation.*** In this part, two points of view in particular stand out: the method should be chosen in terms of the character of property involved and, having been chosen, should be adhered to, rather than checked by other possible methods.

Following parts dealing with "Forecasting of returns" and "Valuation of returns," Part VII presents a detailed discussion of valuation procedure applicable to different appraisal problems. Among the technicalities here considered are depreciation, obsolescence, interest rates, income histories, land valuation by comparison, and estimates of costs. A final chapter deals with the "Accuracy of valuations." Here the view is emphasized that valuations are mere estimates, and some attempt is made to show the factors making for greater or less accuracy. Some of the principal factors suggested are method of collecting and interpreting data, the policy of the appraiser with respect to accuracy, as well as the selection and use of the best method for a given purpose.

Throughout the work, Mr. Babcock has made generous use of concrete illustrations, but it should be emphasized that he is concerned essentially with *method.* Therefore the work should be considered from the point of view of its methodological adequacy. Probably it will be generally agreed that, under existing circumstances, the income method and its variants, on which Mr. Babcock insists, are too complex to be used for ordinary tax assessment purposes; but there are practical suggestions in this volume for assessment of large properties by state, as distinguished from local, administrations. Doubtless, in some of the larger cities, local authorities will find the volume suggestive for certain specific purposes. For valuations not involving property taxation, the study will be generally useful, though application of its methodology will be limited by the desire for "cheap" appraisals.

JAMES W. MARTIN

*University of Kentucky*

NEW BOOKS

BEACH, F. F. *The custody of school funds: an appraisal of systems of school fund custody with particular reference to New York State.* Contribs. to educ. no. 577. (New York: Teachers Coll., Columbia Univ. 1933. Pp. 169. $1.75.)

BIDWELL, P. W. *Tariff policy of the United States: a study of recent experience.* (New York: Council on Foreign Relations. 1933. Pp. vi, 126.)

This is a report to the Second International Studies Conference on the State and Economic Life, held in London in May and June, 1933, and was prepared for the American Committee appointed by the Council on Foreign Relations. The title is likely to prove misleading to the average

reader, as the report is not concerned with American tariff legislation or with the issue of protection. It deals with American attitude on the conditional and unconditional most-favored-nation clause, the reciprocity agreements with Canada, Hawaii, and Cuba, tariff bargaining under the acts of 1890 and 1897, and our colonial tariff policy. The author points out the political and constitutional difficulties of tariff bargaining in the United States; and the impression that the reader receives from this discussion and from the historical survey of American experience is that the prospects of successful tariff bargaining by this country are not rosy. The author, however, refrains from explicitly drawing this conclusion. A large part of the discussion of colonial tariff policy is devoted to the Philippine situation, including the provisions of the recent independence legislation.

FRANK WHITSON FETTER

BOGART, E. L. *Some American proposals for war debt revision*. Bull. no. 47. (Urbana: Univ. of Illinois Bur. of Business Research. 1933. Pp. 44.)

CANTWELL, T. W., editor. *Tax law and other general laws relating to taxation of the State of New York*. 1933 ed. (Albany: Bender. 1933. Pp. 559. \$3.50.)

COREY, C. S. *The Supreme Court and state taxation of interstate commerce*. (Urbana: Univ. of Illinois. 1933. Pp. 11. 25c.)

DIVINE, T. F., and others. *Tariffs and world peace*. Pamph. ser. no. 11. (Washington: Catholic Assoc. for Internat. Peace. 1933. Pp. 47. 10c.)

DÖBLIN, E. *Monopole und Besteuerung*. Veröffentlichungen des Instituts für Finanzwesen an der Handels-Hochschule Berlin, Band 5. (Berlin: Junker und Dünnhaupt. 1933. Pp. 170.)

FAIRCHILD, F. R. *Preliminary report of the Committee of the National Tax Association on Tax Delinquency*. Presented at 25th Nat. Tax Conf., Columbus, Ohio, Sept. 12-16, 1932. (Columbia, S.C.: National Tax Assoc. 1933. Pp. 39.)

HARRISON, W. C. and GARDNER, L. M., editors. *1933 Indiana laws for taxing general intangibles, bank capital and deposits, building and loan association capital, gross income: summarized*. (Indianapolis: J. P. Cummings. 1933. Pp. 23.)

HUNTER, M. H. *Legal provisions affecting real estate tax delinquency, tax sales, and redemption*. Bull. no. 48. (Urbana: Univ. of Illinois Bur. of Business Research. 1933. Pp. 41.)

MEHTA, J. K. *The nature, classifications and principles of public revenue and expenditure*. (Allahabad: Indian Press. 1933. Pp. iv, 58.)

NICHOLS, P. *Taxation in Massachusetts*. 1933 suppl. to 2nd (1922) ed. (Boston: Finan. Pub. Co. 1933.)

Contains legislation of 1932, decisions of United States Supreme Court affecting taxation by states, decisions of Massachusetts Supreme Judicial Court affecting taxation, and decisions of Massachusetts Board of Tax Appeals from January, 1932-1933.

RACINE, S. F. *Income tax guide applicable to the State of Washington*. (Seattle: Western Inst. Press. 1933. Pp. 186. \$2.)

REED, T. H., editor. *Government in a depression: constructive economy in state and local government*. (Chicago: Univ. of Chicago Press. 1933. \$1.)

A series of radio broadcasts.

RETICKER, R. and MARSHALL, L. C. *Expenditures of public money for the*

*administration of justice in Ohio, 1930*. (Baltimore: Johns Hopkins Press. 1933. Pp. xviii, 233. $2.50.)

Ricci, U. *Le budget de l'etat egyptien*. Extrait de *L'Egypte Contemporaine*, t. xxiii. (Cairo: Imprimerie Nationale. 1932. Pp. 427-506.)

Ruslander, S. L. and Main, F. W. *Pennsylvania corporation taxes*. 3rd ed. (New York: Prentice-Hall. 1933. Pp. xlviii, 728.)

Covers the tax on capital stock and loans of corporations, bonus paid by domestic and foreign corporations, tax on shares of banks and trust companies, mercantile license tax, tax on personal property, and Pennsylvania emergency relief sales tax.

Sparling, E. *The primer of inflation: what it is and what it means to you*. (New York: John Day. 1933. Pp. 133.)

Stimson, E. S. *Jurisdiction and power of taxation*. (Kansas City: Vernon Law Book Co. 1933. Pp. viii, 119.)

Vitz, C. P. P., editor. *Current problems in public library finance*. (Chicago: Am. Library Assoc. 1933. Pp. viii, 128.)

*Balancing the budget: federal fiscal policy during depression. Statement by a University of Chicago round table*. (Chicago: Univ. of Chicago Press. 1933. Pp. 30.)

*Customs and excise tariff of the United Kingdom of Great Britain and Northern Ireland in operation on the 1st August, 1933*. (London: H. M. Stationery Office. 1933. Pp. 252. 6d.)

*Federal income taxation: revenue act of 1932, regulations 77 and 78*. (Chicago: Commerce Clearing House. 1933. Pp. loose-leaf.)

*Internal revenue: regulations 81, relating to processing tax and compensating tax under the Agricultural Adjustment act*. (Washington: Supt. Docs. 1933. Pp. 45. 5c.)

*A plan of a model system of state and local taxation: second report*. Presented at the 26th Nat. Tax Conference, Phoenix, Arizona, Oct. 16-20, 1933. (Columbia, S.C.: National Tax Assoc. 1933. Pp. 68.)

## Population and Migration

*Das Neue Bevölkerungsproblem*. By Karl v. Balás. Veröffentlichungen der Ungarischen Statistischen Gesellschaft, No. 7. (Budapest: Stephaneum Nyomda R. T. 1932. Pp. 71. 3 Pengó.)

This is in some respects a remarkable production. The new population problem is not, as we might imagine, the effect of declining natural increase and prospective stationary population on economic organization and process. The new problem is to secure a *Bevölkerungsverwaltung* in which women, if they cannot be persuaded, will be compelled to bear enough children to maintain the interests of the state. Never, probably since the time of Frederick the Great, has so bald a proposition been so frankly put. To have it, is worth reading through three score pages of bad, almost legalistic, German. It is interesting also, though perhaps not unexplainable, that an almost panic fear of declining population increase should come from a Hungarian professor, although Hungary is still a high birth-rate nation, with a natural increase (1930) of 9.4

compared with 6.4 in Germany and 5.1 in England. But the shadow of "the East," which probably means in the main Russia, is on Professor Balás, for the Russian birth rate in 1929 was 43.7 and the natural increase in 1928 was 21.0 per thousand. Beyond this, looking to a natural increase of 12.9 (1929) in Japan—a higher rate than any European country save Russia—Professor Balás discerns a new appearance of the old "yellow peril." At least he speaks repetitively of "racial" interests, competitions, and rivalries.

This sort of thing is not new, of course, however it may be dressed up in repeated references to "scientific" discernment. Such "objective" fear, and whatever policies may come out of it, are at bottom based on sentiment. This, to be sure, is not a definitive argument against them, since all policies are rooted in sentiment and valuations. But we need to be aware of the particular hue and cast of the sentiment which we are asked to share. When it comes to valuations, not science or reason, but taste, and perhaps an element of extraverted egotism, are the judges. So if a scientist chooses to view with even somewhat extreme alarm the rush of the Latin and Teutonic nations, including the United States, toward a stationary and probably a declining population, while the fully employed communistic Russian, the headstrong militaristic Japanese, the pacifically nationalistic Hindus, and the still pullulating Chinese continue to eschew contraception, we may go with him in his rationalization, just to see where it goes. The root of Professor Balás' fear and the major premise of his logic lie in the age-old and appropriately continental political philosophy of the state, and specifically in the assumption that the state—and even the "race"—has interests which transcend those of its population, that is, of the human individuals who compose it. Drop this assumption, which is a sentiment or valuation, and the rest is meaningless.

Doubtless most Americans, as a sheer matter of taste in color and culture, would prefer, on a show-down, that America continue to be inhabited by white (and black?) rather than yellow or brown men and women. But why assume, as Professor Balás does, that unless we breed like rats the little yellow men will come over and take the country from us? Doubtless he prefers that Hungary be Magyar and German rather than Russian, whether white or red, and he is doubtless correct in the intimated rather than expressed idea that Russia might in a whimsical mood overrun his country. Few of us, probably, have never had fleeting thoughts of what the Russian bear, thoroughly trained and equipped by communistic technocrats, might do to western Europe. But, in the absence of an integrated United States of Western Europe, what good would it do any comparatively small country like Hungary to "maintain an equilibrium in population increase" with Russia? Not rates of in-

crease, but absolute sizes of population, count in the kind of international conflict which is conventionally in the minds of continental, and especially Balkan, nationalists. Moreover, the victory in a fight *à outrance*, either military or economic, will not necessarily go to the nation with the biggest population. Quite as likely, it will go to the one which has the better natural resources, capital, and industrial organization. A little consideration of these matters would have vastly improved Professor Balás' philosophy of conflict.

He is entirely correct in seeing in the spread of contraception an expression of rising demands on life and an assertion of individualism. While he speaks of this movement as a "disease," he is led to do so only because he thinks that individualism and higher subjective standards of living are sapping the numerical strength which, and only which, according to his view, insures national, or racial, "safety." Assure him that Hungary will not be swallowed up by Russia or the white race rendered subordinate to the yellow, and he will argue for an "optimum" population as much as any valiant idealist. He is not unaware of the fact that the optimum size for a population depends on a number of fundamental variables, among which are natural resources, capital, and organization; but these remain in the dim hinterland of his thought, and he proceeds on the assumption that every country should maintain at least a stationary population. Whereas the truth is that one could mention a dozen countries which would be materially better off with much smaller population than they now have. He admits that "rasche Vermehrung" may bear hardly on the individual, but the individual must put up with this inconvenience. Social and individual interests may be dissonant, indeed may be in direct opposition. Asking how all these conflicting interests can be harmonized, his first answer is that it can't be done. Compromise of course, but in the end the interest of the individual has to give way to that of the state, by compulsion, if persuasion and propaganda will not effect harmony.

His conviction as to the indispensability of equilibrium of population between different nations leads him to propose international agreement in the regulation of increase—a kind of international population cartel (bevölkerungspolitisches Kartell)—which reminds us of the proposal made, perhaps not very seriously, by Harold Cox ten years ago (*The Problem of Population*), for a league of low birth-rate nations. The Balás suggestion goes this one better; for, to be effective, it would have to include the high birth-rate nations as well, especially Russia and Japan. One can easily imagine what "compromise" Japan, in its present temper, would propose.

But Professor Balás is only playing with the idea. That he has no faith in it is shown by his final suggestion that legal compulsion will

have to be brought to bear upon couples to refrain from family limitation until they have as many (living?) children as statistics show to be the average number necessary to maintain a stationary population. When the progressive humanity of the future sees its national or racial perpetuation threatened by real dangers, then the time will come when the duty of women to bear children will be subject to the same legal sanctions as the duty of men to give up their lives.

A. B. WOLFE

*Ohio State University*

NEW BOOKS

DUBLIN, L. I. and BUNZEL, B. *To be or not to be.* (New York: Smith and Haas. 1933. Pp. x, 443. $3.50.)

A study of suicide. Topics treated are its prevalence, influences of environment, historical background, law and life insurance, psychology of suicide and prevention.

FERENCZI, I. *Les difficultés démographiques de la politique sociale internationale.* Extrait de la revue *Le Assicurazioni Sociali.* (Rome: Cassa Naz. per Le Assicurazioni Sociali. 1933. Pp. 33.)

GREENE, E. B. and HARRINGTON, V. D. *American population before the federal census of 1790.* (New York: Columbia Univ. Press. 1932. Pp. xxii, 228. $3.50.)

This is a compilation, the work of which is credited in the preface mainly to Miss Harrington, of all the available statistics of population in the several American colonies prior to 1790. A list of estimates of the population of the 13 colonies collectively, at dates running from 1625 to 1790, is also supplied. These estimates are drawn from state papers, colonial records, the British Colonial Office and Board of Trade, historical society collections and miscellaneous sources. No secondary estimates are included except those of Chalmers and Bancroft. The detailed tables by colonies transcribe figures for towns and counties with varying classification as to white and colored, sex and age, free and slave, etc., according to the nature of the original counts. Most of the figures pertain either to men of military age, taxable persons, families or houses, but the figures of the various colonial censuses are also given in some detail. Figures from a wide variety of contemporary sources are also given for "the Illinois country," Kentucky, and Tennessee, and, of particular interest to American ethnologists, for the western Indians.

The book is for reference purposes only. It will be a valuable asset to the general American historian and to students of the history of population and census taking; but the statistician will be disappointed at the absence of any critical discussion of the reliability of the sources and figures. There is no attempt to tell, for instance, how thoroughly, or by what authority, the few colonial censuses were made. It is to be regretted that the book was published without such a critical analysis. Because of this lack, it is inferior in this respect to the *Census of Population Growth* (Bureau of the Census, 1909). On the other hand, in respect to exhaustiveness with which sources have been drawn upon, and the completeness with which the contemporary statistics have been made available, it is superior to that publication, and a welcome supplement to it.

A. B. W.

KENNEDY, F. A. *A bibliography of negro migration.* (New York: Columbia Univ. Press. $5.)

NICHOLSON, E. E. *Tuberculosis mortality among young women in New York City.* (New York: Nat. Tuberculosis Assoc. 1933. Pp. 42.)

*New Zealand: statistical report on the external migration of the Dominion for the year 1932.* (Wellington: Census and Statistics Office. 1933. Pp. vi, 17. 2s.)

*New Zealand: statistical report on population and buildings for the year 1932-33.* (Wellington: Census and Statistics Office. 1933. Pp. 23. 2s.)

*Statistical report of infant mortality for 1932 in 955 cities of the United States.* (New York: Am. Child Health Assoc. 1933. Pp. 31.)

*Vital statistics: introduction to the vital statistics of the United States, 1900 to 1930.* (Washington: Supt. Docs. 1933. Pp. 138. 10c.)

## Social Problems and Reforms

*Industry and Society: a Sociological Appraisal of Modern Industrialism.* By ARTHUR J. TODD. (New York: Holt. 1933. Pp. xiii, 626. $3.00.)

This book may, in part, be described as a one-man study of recent social trends, with many of the advantages that come from an appraisal of facts in the light of one man's philosophy, and with few of the disadvantages because the author has brought to a variety of subjects as much wisdom as a specialist might have brought. He makes many present-day problems stand out clearly in the light of economic history. And Mr. Todd's historical perspective gains in justness by his knowledge of the industrial development of the Orient—where a sort of contemporary Industrial Revolution is in progress. The discussion takes the form of readable prose that is enlivened by epigram and humor.

The author himself would not describe his work as a study of recent social trends. He thinks of it as "a sociological appraisal of modern industrialism"—the subtitle of the book. The criteria of appraisal have already been set forth elsewhere.[1] They include, among other things, health; rational persuasion rather than force in international relations, government, education, and the family; the more adequate satisfaction of "more real needs of more people."

Armed with such criteria of progress, the author surveys modern industry to discover whether or not our present methods of production have contributed to social progress. The answer, after wide ranging, is in the affirmative, but with important reservations. In the last quarter of the book, therefore, the author inquires into the value of several proposed "antidotes and remedies" for industrialism. After rejecting revolution, he devotes his attention to what he perceives as the most successful experiments in the democratization of American industry. The author feels that the peaceful penetration of the industrial field by such experi-

[1] A. J. Todd, *Theories of Social Progress,* N.Y., Macmillan, 1918.

ments as labor banking and employee ventures in capitalism are "likely to accomplish a revolution in industrial control and administration." Mr. Todd, without giving his entire allegiance to any one plan, feels that the men's clothing industry is a model to pattern by. Personnel work, welfare work, social work—all these, if carried on in a spirit of honesty, will serve to humanize industry. We may, finally, look to social reform and religion for help in making industry contribute more generously to social progress.

These tolerant and closely-reasoned pages will not pass unchallenged under the eyes of all readers. First, some persons will not accept the author's criteria of progress. The average American reader will probably accept most of Mr. Todd's assumptions, with a change of emphasis here and there; only the sceptic or nihilist will repudiate those assumptions entirely. There are two omissions. The first is in the chapter on revolution. Neither in footnotes nor in the text is there any mention of the contributions to revolutionary theory made by Lenin and Trotzky. An even more important omission is the omission of fascism as an "antidote" or "remedy." It is by no means a foregone conclusion that the organization of industry under fascism may not contribute towards social progress.

Finally, if one believes that modern industrialism and modern society are almost identical, or that modern industry determines the form of modern society, one will feel a certain weakness in Mr. Todd's approach. If the ramifications of industry and society are greater than Mr. Todd suggests, then only a series of more highly integrated social and industrial changes than those contemplated by the author, will avail as "antidotes" and "remedies."

John S. Gambs

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NEW BOOKS

Allport, F. H. *Institutional behavior: essays toward a re-interpreting of contemporary social organization.* (Chapel Hill: Univ. of North Carolina Press. 1933. Pp. 539. $3.50.)

Bloodworth, J. A. *Social consequences of prolonged unemployment: an analysis of five hundred cases.* Employment Stab. Research Inst., vol. ii, no. 5. (Minneapolis: Univ. of Minnesota Press. 1933. Pp. 16. 50c.)

Breckinridge, S. P. *Women in the twentieth century: a study of their political, social and economic activities.* (New York: McGraw-Hill. 1933. Pp. xi, 364. $4.)

Callender, C. N. *The crisis of democracy.* (Philadelphia: Am. Acad. of Pol. and Soc. Science. 1933. Pp. v, 237. $2.50.)

Grosskopf, J. F. W. *The poor white problem in South Africa: rural impoverishment and rural exodus.* Part I. (Stellenbosch, So. Africa: Univ. of Stellenbosch. 1932. Pp. xxiii, 245.)

This is the first part of the report of the Carnegie Commission.

Gruenberg, S. M. and Gruenberg, B. C. *Parents, children and money:*

*learning to spend, save and earn.* (New York: Viking. 1933. Pp. xii, 219. $1.75.)

A guide for parents, teachers and social workers for the orientation of children in relation to money. Treats of fines, earning money, saving, spending and borrowing.

HALLGREN, M. A. *Seeds of revolt: a study of American life and the temper of the American people during the depression.* (New York: Knopf. 1933. Pp. 369, xix. $2.50.)

From the cover wrapper is quoted: "The author, an associate editor of *The Nation,* here presents a vivid record of what went on among the masses—the farmers, workers, small business men, unemployed—during the past four years; and he attempts to predict, on this basis, whether the future of the American state lies in communism, fascism, or traditional democracy."

JONES, B. *Debt and production: the operating characteristics of our industrial economy.* (New York: John Day. 1933. Pp. 158. $2.)

JONES, H. E. and CONRAD, H. S. *The growth and decline of intelligence: a study of a homogeneous group between the ages of ten and sixty.* Genetic psych. monog. vol. xiii, no. 3. (Worcester: Clark Univ. 1933. Pp. 223-298.)

KEYNES, J. M. *The means to prosperity.* (New York: Harcourt Brace. 1933. Pp. 37. 30c.)

KYRK, H. *Economic problems of the family.* (New York: Harper. 1933. Pp. xx, 500. $3.50.)

Books on the family have most often been confined to the purely social problems generated by a changing economic order. One popular inquiry for students of society is the enumeration and investigation of the various *effects* of economic changes upon the family. To be sure, a large literature has grown up around family budget analysis, but in the main it has been interesting and perhaps intelligible to only a few specialists. Economic theorists have tended to found their science on the individual, the economic man; and his motivation, rational or irrational, is still argued in the wars between the schools. Even the economists who make consumption their chief interest tend to stress the individual problems of the housewife who is the principal purchasing agent for the family.

In writing a book on the economic problems of the family Miss Kyrk has done us a great service. She brings together questions that are becoming the vested interests of specialists who scarcely even meet each other at the academic conventions. She treats child labor, unemployment, and industrial accidents, for example, as family problems instead of as what are more vaguely known as social problems, or as labor problems. Only the last third of the book is devoted to considering how the family income is spent. Necessarily, when we begin to think of the family unit as more fundamental to our social structure than is usually admitted, practically every economic problem can be thought of as a family problem; and the choice of which problem to deal with in this fashion must be somewhat arbitrary. Miss Kyrk includes some discussion of fluctuations in the general price level and of inflation, although these are presumably more or less unaffected by the fact that people live together in families. She omits the discussion of the coöperative movement and of chain and department stores.

As a piece of exposition the book attempts rather too many different problems than too few. In many places it is hardly more than an outline.

But its comprehensiveness is one of its principal recommendations as a textbook, particularly since it includes a large number of references to supporting material and much tabular quotation from sources that are not too easily available. The treatment suggests new ranges of speculation and a new division of academic interests. It is designed, according to the preface, "to furnish a general background for more intensive work in the field of consumption and of consumer-buying." But it can equally well be recommended as a background for students in labor problems or for students in schools of social work; and, except for certain of the more technical chapters, for students who are interested in the more philosophical questions of social organization or in the ethical problems of modern family life.

EDITH AYRES

LEVEN, M. *The incomes of physicians: an economic and statistical analysis.* (Chicago: Univ. of Chicago Press. 1933. Pp. ix, 135. $2.)

This report is included among the studies made by the Committee on the Costs of Medical Care. The figures are for the year 1929. The information is gained from several sources and each of these tends to corroborate the other. The conclusion is drawn that the average gross income of physicians engaged in private practice was slightly more than $9,000. About 40 per cent of the income went to the complete specialists; 22 per cent, to partial specialists, and 38 per cent to general practitioners. The cost to the public was slightly more than one billion dollars.

Medical practice is less remunerative in the smaller communities than in the big cities. The report points out that in the communities of less than 5,000, containing about 48 per cent of the population, 30 per cent of the physicians of the country may be found, but that these physicians receive only 18 per cent of the aggregate income of this professional group. Cities of 100,000 or more contain 29.6 per cent of the population and 44 per cent of the physicians, but the gross income of these is 55 per cent of the physicians' medical bill. The net income of physicians is much less than the gross income. The former was estimated at $5,300 and apparently does not vary widely from the income of salaried physicians. However, there are some notable differences. Among the latter there are few with either very low or very high salaries. Again, while the average income of the salaried group is about $900 below that of the private physician, the median income is $500 greater.

The writer also discusses the income-producing period of the physician. He estimates that the average physician begins to practice medicine at the age of 28, and says that, if he wants to retire at 60, he would have "only 32 years of active practice in which to equip an office, build up a clientele, pay his college debts, earn a living for himself and his family, and create the necessary contingency and retirement funds." One wonders how many more years other types of professional men have in which to establish themselves and make proper provision for themselves and their families.

The report indicates that one of the problems of medical care is in respect to specialization. In the large cities the specialists enjoy incomes much larger than those of the general practitioner. The relative figures are $10,000 and $3,900. Specialists are frequently used when the general

practitioner would do quite as well. The use of the sliding scale of charges also does more harm than good. The amount of free service for the year is estimated at $68,000,000, and the percentage of charges collected ranges from 73 to 86.4 per cent.

In his summary the author concludes that the income of physicians is not unreasonable but that other costs connected with physicians' services are abnormal. With the lessening of these costs the public would gain without loss to the physicians' net income. The study seems to be less objective than other studies by the Committee on the Costs of Medical Care. However, it has brought out needed and important information.

George B. Mangold

McClure, W. M. *World prosperity, as sought through the economic work of the League of Nations.* (New York: Macmillan. 1933. Pp. 652. $4.)

Magee, J. D., Atkins, W. E. and Stein, E. *The national recovery program.* (New York: Crofts. 1933. Pp. 80. 40c.)

The National Industrial Recovery act is treated by Willard E. Atkins; the farm program by Emanuel Stein; and money, banking and finance by James D. Magee. Reprints of portions of recent legislation are included.

Morley, F., editor. *The economic world today.* (Chicago: Univ. of Chicago Press. 1933.)

Contains radio broadcasts sponsored by the National Advisory Council on Radio in Education.

Newbold, W. *Democracy, debts and disarmament.* (New York: Dutton. 1933. Pp. xiv, 343. $3.)

Ogilvie, F. W. *The tourist movement: an economic study.* (London: P. S. King. 1933. Pp. xv, 228. 12s. 6d.)

Reed, T. H., editor. *Legislatures and legislative problems.* (Chicago: Univ. of Chicago Press. 1933. $1.) Radio broadcasts.

Salter, A. *The framework of an ordered society.* (New York: Macmillan. 1933. Pp. 60. 75c.)

This small volume comprises three lectures delivered by the author as Alfred Marshall lecturer at Cambridge University in February, 1933. Its purpose is more limited than that of such a volume as George Soule's *A Planned Society.* It is suggestive, dealing rather with the large principles involved. The concept of planning is helpfully explored and the need for it as defined is argued. The author's experience with public administrative work gives him a healthy realism in setting forth the difficulties to be encountered; but he is sure that these difficulties are less onerous than those of *laissez faire.* It is interesting that he invokes the need for "institutional self-discipline" along lines similar to those made familiar by our own Professor Tugwell's latest book. The broad outlines of structures which are advocated are not new and they have already commended themselves to many students. However, his emphasis upon the necessity for the extension of the concept of government into the world of economic affairs and the redefining of democratic methods which that entails, is more than usually clarifying and persuasive. The serious deficiency of the lectures is that they are wholly concerned with where the author wants to go but not at all with how he proposes to get there amid the conflicting economic interests of contemporary society.

O. Tead

SALTER, A. *Modern mechanization and its effect on the structure of society.* 2nd Massey lecture delivered at McGill Univ., April 18, 1933. (New York: Oxford Univ. Press. 1933. Pp. 42. 50c.)

Sir Arthur presents an admirable brief sketch of the whole situation, incidentally bringing the technocratic statistics into correct perspective. He believes that adjustment of the social order to the strains generated by mechanization may be effected by a middle course which shall constitute "a selective and creative compromise" between unregulated freedom and complete tyranny. This consists of "collective self-government in industry and in each sphere of economic and financial activity, encouraged by and linked up to state action but not directed in detail by it." As applied to the capital market, this involves a National Investment Board with veto power only, supplemented by a code collectively observed by houses of issue. Coming developments are seen as including: (1) Decentralization of production; (2) leisure; (3) re-humanization of industrial processes through more complete mechanization of repetitive operations; (4) competition tending to give way to coöperation with decreasing scarcity of basic commodities.

B. A. THRESHER

STEVENSON, M. and BROWN, L. *Unemployment relief legislation, federal and state, 1933.* Pub. admin. serv. no. 34. (Chicago: Pub. Admin. Service. 1933. Pp. 19.)

VARELA, M. L. L. *Cuestiones economicas y financieras.* (Buenos Aires: Menéndez. $6.)

WEBB, M. *Labour's call to youth.* (London: The Labour Party. 1933. Pp. 8.)

ZIMAND, G. F. *When children are injured in industry: report of a follow-up study of 167 children injured in industrial accidents in Tennessee, Illinois and Wisconsin.* Pub. no. 367. (New York: National Child Labor Committee. 1933. Pp. 43. 50c.)

Prepared from a study conducted by Charles E. Gibbons and Chester T. Stansbury.

*Adult education and rural life. Proceedings of the Fifteenth American Country Life Conference, Wheeling, West Virginia, October 14-16, 1932.* (New York: Univ. of Chicago Press. 1933. Pp. vii, 153.)

*Canadian Political Science Association: papers and proceedings of the fifth annual meeting, Ottawa, May, 1933.* Vol. V. (Kingston, Ont.: Canadian Pol. Sci. Assoc. 1933. Pp. 256.)

Contains papers contributed by Stephen Leacock on "The economic analysis of industrial depression"; J. L. McDougall on "Economic Equilibrium and the investment banker"; D. G. Creighton on "The commercial class in Canadian politics, 1792-1840"; A. Brady on "An economic council for Canada"; J. Coke on "Efforts to control marketing by government boards or organizations acting with government support"; C. B. Davidson on "Recent legislation affecting international trade in farm products"; W. M. Drummond on "The functions and responsibilities of governments in agricultural marketing"; J. E. Van Buskirk on "The proposal for a Canadian central bank"; and F. C. Biggar on "Canadian bankers and a central bank."

*Housing: report of the State Board of Housing to Governor Herbert H.*

*Lehman and to the legislature of the State of New York.* Legis. doc. no. 112. (Albany: State House. 1933. Pp. 88.)

*Housing and slums.* Policy rep. no. 7. (London: The Labour Party. 1933. Pp. 21. 2d.)

*The lawyer and the public.* Edited by the Council on Legal Education and Admissions to the Bar of the American Bar Association. (Chicago: Univ. of Chicago Press. 1933. $1.)

*Medical relations under workmen's compensation.* (Chicago: Am. Medical Assoc. 1933. Pp. 157. 75c.)

Report prepared by the Bureau of Medical Economics.

*National Conference on the Financing of Education: report.* (Washington: Nat. Educ. Assoc. 1933. Pp. 78.)

Conference held under the auspices of the Joint Commission on the Emergency in Education of the National Education Association and the Department of Superintendence at Columbia University, July 31 to August 11, 1933.

*Proceedings of the Institute of Public Affairs, University of Georgia, seventh annual session, May 8-16, 1933.* (Athens: Univ. of Georgia. 1933. Pp. xiv, 174. $1.50.)

Among the speakers were: Jacob Viner on "Tariff reduction by international agreement," and "Inflation as a possible remedy for the depression"; and Paul Douglas on "The world problem of unemployment," and "Technological aspects of unemployment."

*Sociological problems and methods: papers presented at the twenty-seventh annual meeting of the American Sociological Society held at Cincinnati, Ohio, December 28-31, 1932.* (Chicago: Univ. of Chicago Press. 1933. Pp. vi, 159.)

*Supervision in the social studies. Third yearbook of the National Council for the Social Studies.* (Philadelphia: McKinley Pub. Co. 1933. Pp. 260.)

*Unemployment and the child.* (New York: Longmans. 1933. Pp. 136. 90c.)

## Insurance and Pensions

*Insecurity: A Challenge to America.* By Abraham Epstein. (New York: Smith and Haas. 1933. Pp. xv, 680. $4.00.)

An extended brief for the social insurance program is given in this study. The author believes that the competitive system will continue, "that social revolution is distant" and that "social insurance fulfills its aim if it prevents destitution and poverty and maintains a minimum national well-being." No specific reference is made to the National Recovery Administration, but Mr. Epstein believes "high wages will not eliminate the business cycle." Apparently we shall have to bid good-by to the N.R.A. *or* the profit motive, if we agree with the author, inasmuch as he says, "So long as the profit motive remains, there can be no stifling of competition." Economic planning or competition, one or the other, must go out the window. "Competition and economic planning have nothing in common," he says; and again, "Stabilization and regularization have made insignificant progress" (page 247). The author seems to

think that a public works program during a depression merely absorbs the men let out of work in private building; but of course there are many approaches to the unemployment problem in the New Deal which he does not consider.

Among the obstacles to the enactment of a more comprehensive social insurance program has been the American business man who has stubbornly refused to recognize the significance of a "movement which is protecting in one way or another some 700,000,000 people in over 40 different countries" (page 62). According to a footnote quotation from Dr. Rubinow (page 593) economists might be similarly indicted. In the early years of the workmen's compensation movement in America support was obtained from economists in the government service but the academic economists, apparently unmindful of the movement, were almost completely immersed in economic theory discussions.

The author believes that advocates of social insurance "have before them a harvest ripe for the gathering" and strikingly drives home the drab facts concerning the insecurity of American workmen and white collared classes. When 15,000,000 Americans exist only on the "skimpy and monotonous food rations dished out through private charity and public relief"; when 33 per cent of older persons investigated have incomes below $300 per year; and when we note that the health and efficiency of the men called to the German Army was greatly improved because of health insurance, we must agree that there is a place for more of the social insurance program.

The author speaks with conviction throughout his study. He points out that the New York Old Age Pension act has made it possible to maintain 16 persons for the price of supporting only 10 inmates in almshouses. America has become the leader in providing for mothers and children deprived of their breadwinners but has done practically nothing in providing allowances for large families. Forty-four states have workmen's compensation laws, but many are inadequate; and only about two-thirds of the workers are protected against the accident risk. The Committee on the Cost of Medical Care has collected much information which would indicate that health insurance is a necessity, but we have no laws on the subject at the present time. America has had more unemployment than any country in the world, but only one state (Wisconsin) has an unemployment insurance law; and Mr. Epstein says this law does not conform to social insurance principles. Mr. Epstein prefers a law similar to that in Great Britain with contributions from employer, employee and the state. The Wisconsin law requires contributions only from the employers but workers may contribute. The Industrial Commission has approved voluntary plans with possibilities for bipartite contributions (from employer and employee).

In his discussion of old-age insecurity the author points out that because we have not built up any reserves for old-age insurance we shall have to resort to straight pensions from the state for the aged. This same philosophy has been applied to unemployment by the Dole Administration (Federal Relief Administration). The state is paying all of the meager benefits from funds obtained through taxation and borrowing. This procedure cannot be easily stopped now that it has become almost institutionalized. It is known that President Roosevelt believes in unemployment insurance and reserves, so there is some hope that the next session of Congress will pass legislation establishing standards and subsidies for states even if a federal comprehensive system cannot be enacted.

The author is admittedly partisan at times; but on the whole the book is a valuable addition to the pioneer American studies on social insurance made by the late Professor Seager in 1910 and by Dr. Rubinow in 1916.

JOHN B. EWING

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NEW BOOKS

AMRHEIN, G. L. *The liberalization of the life insurance contract.* (Philadelphia: Winston. 1933. Pp. 369. $4.)

AVERILL, C.C. and FROST, L. M. *Some factors underlying forest fire insurance in Massachusetts with special reference to six representative properties.* Harvard forest bull. no. 17. (Cambridge: Harvard Univ. 1933. Pp. 80. 75c.)

BETTERLEY, P. D., and others. *Insurance security in a world of changes; insurance for fluctuating values; settlement of losses without controversy.* Insur. manag. ser. 15. (New York: Am. Manag. Assoc. 1933. Pp. 44. $1.)

BOWEN, H. H. *Workmen's compensation insurance.* Insur. manag. ser. 16. (New York: Am. Manag. Assoc. 1933. Pp. 20. 75c.)

BROWN, C. H. L. and TAYLOR, J. A. G. *Friendly societies.* Inst. of Actuaries Students' Soc. consolidation of reading ser. (New York: Macmillan. 1933. Pp. xii, 96. $2.60.)

COLLIE, J. *Workmen's compensation: its medical aspect.* (Baltimore: Williams and Wilkins. 1933. Pp. 167. $2.75.)

DOUGLAS, P. H. *Standards of unemployment insurance.* Soc. serv. monog. no. 19. (Chicago: Univ. of Chicago Press. 1933. Pp. xiv, 251.)

HOHMAN, H. F. *The development of social insurance and minimum wage legislation in Great Britain: a study of British social legislation in relation to a minimum standard of living.* (Boston: Houghton Mifflin. 1933. Pp. xxi, 441. $3.50.)

HUEBNER, S. S. and MCCAHAN, D. *Life insurance as investment.* (New York: Appleton-Century. 1933. Pp. 313. $2.50.)

LOW, S. P. and COULES, S. V. F. *Unemployment insurance.* (New York: Pitman Pub. Corp. 1933. Pp. xi, 123. $2.)

A brief compendium summarizing the elementary principles and practices of the English system of insurance against unemployment.

WELLCK, A. A. *The annuity agreements of colleges and universities.* (New York: Author, 88 Morningside Dr. 1933. Pp. 77. $1.25.)
*Compulsory pension insurance: comparative analysis of national laws and statistics.* Stud. and rep. ser. M, no. 10. (Geneva: Internat. Labour Office. 1933. Pp. xii, 782. $4.)
*Medical relations under workmen's compensation: a report prepared by the Bureau of Medical Economics.* (Chicago: Am. Medical Assoc. 1933. Pp. 157. 75c.)
*National Board of Fire Underwriters: proceedings of the sixty-seventh annual meeting, May 25, 1933.* (New York: Nat. Board of Fire Underwriters. 1933. Pp. 152.)
*Unemployment insurance and various forms of relief for the unemployed.* Internat. Labour Conf. 18th session. (Geneva: Internat. Labour Office. 1933. Pp. 38.)

## Socialism and Co-operative Enterprises

### NEW BOOKS

MOELLENDORFF, W. G. VON. *Konservativer Sozialismus.* Edited by H. CURTH. (Hamburg: Hanseatische Verlagsanstalt. 1932. Pp. 267.)
WALTER, K., editor. *Coöperation and Charles Gide.* (London: P. S. King. 1933. Pp. 178. 8s. 6d.)
*The communist solar system.* (London: The Labour Party. 1933. Pp. 23. 2d.)
*Co-operative organisations.* International labour directory, part VI. (Geneva: Internat. Labour Office. 1933. Pp. 201. 60c.)
*Socialism and the condition of the people.* Policy rep. no. 5. (London: The Labour Party. 1933. Pp. 20. 2d.)

## Statistics and Its Methods

*Contributions to the History of Statistics.* By HARALD WESTERGAARD. (London: P. S. King. 1932. Pp. vii, 280. 12s. 6d.)

Statistics is probably older than economics. Even if the earlier German university statistics be left out of account, the origin of the study can be traced back to A.D. 1662 when Graunt's *Natural and Political Observations* was published, and at that date modern economics had produced no book that proved equally seminal. Statistical societies, which have done much to foster an interest in the history of their field, have been active perhaps twice as long as economic societies.

Notwithstanding the fact that economics is the younger study, its history has been treated much more fully than that of statistics; and accordingly the present volume from one who has greatly enriched the latter subject is to be cordially welcomed as helping to fill a lacuna in our knowledge. The author believes that the three main roots of statistics are *Staatenkunde*, or the comparative description of states, political arithmetic, and the calculus of probabilities, the first originating in Germany, the second in England, the third in Italy and France. He aims

to show how they have blended into the statistics of today. The book is composite not only because the author so conceives the subject, but because its development in different countries has varied both in direction and in speed. A real history of statistics as an international discipline must probably wait until more spade work has been done in the history of statistics in the several countries. In the present work the geographical classification sometimes interferes with the logical, although in the later period when statistics became more international this difficulty dwindles.

Professor Westergaard's conception of statistics is one he elaborated more than half a century ago in his first book. During that interval it has not won general acceptance or even gained much ground. What recent writer begins, as our author began the 1882 edition of his *Mortality and Morbidity*, with an explanation of the law (so-called) of large numbers and the concept of probability? Mathematical principles, to be sure, can be used to test many statistical results, but are they the only test? Does not the congruity of the conclusions reached in statistics, as in the physical sciences, constitute an important test of correctness? Perhaps Professor Westergaard's approach to statistics through actuarial studies (he dedicated his first book to an English actuary) has led him to emphasize more than others the mathematical phases of his subject.

Even if one agrees with him that statistics is a blend, the question still arises whether its components have been rightly conceived. Perhaps it is, as Knies said long ago, both a method and a science. If so, the history of either might be coherent, but a consecutive history of the two is hardly possible. If statistics be a method, then its achievements in the physical sciences, hardly mentioned by Westergaard, deserve recognition. If it be a science, demography, based on complete enumeration, then his chapter on Staatenkunde might be omitted and his emphasis on the calculus of probabilities diminished. With complete enumeration it seems unecessary to invoke the calculus to adjudicate upon the trustworthiness of the results for the population enumerated and at the time of enumeration, and the question whether those results will apply to the same group at another time turns upon the rate of group change where, again, abstract mathematics is of little help. The calculus becomes important when the question is whether what is true of a sample is true of the whole. But even there, while it throws light on the question whether the sample is large enough, it throws little on the question whether it is representative.

We echo the author's hope that the book will prove to be the forerunner of a projected forecast for the future of statistics, a study to which his life has been devoted and in which he has garnered an abundant

harvest. Few indeed are better equipped than he to anticipate the trend of statistics in the next generation.

WALTER F. WILLCOX

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*Methods of Statistical Analysis in the Social Sciences.* By GEORGE R. DAVIES and WALTER F. CROWDER. (New York: Wiley. 1933. Pp. xi, 355. $3.25.)

Most introductory textbooks in statistics are unnecessarily encyclopedic, because the large number of excellent collateral manuals on charting, on the sources of data and on sampling procedures have really reduced the scope of work necessary for such texts. Fully aware of this situation the authors attempt to "concentrate attention upon laboratory methods and the logic underlying them, and to give sufficient practice in computation to fix these methods in mind" (p. v). Following this point of view consistently they deal, in one short chapter, with sampling, primary and secondary data, tabulation, frequency distributions, graphic presentation and the common rules of numerical accuracy.

An excellent introductory chapter stresses the value of training in statistical methods which are the most important of the tools in the social sciences; the authors believe that eventually the "social arts of business and politics will rest upon a substantial theoretical and mathematical foundation" (p. 3).

Consistent with the expressed point of view, techniques of statistical analysis are introduced in succession in chapters on averages, dispersion, index numbers, time series, correlation and probability. The treatment of averages is more complete than usual, for in addition to the arithmetic average, the median, and the mode, the work gives a discussion of the geometric, harmonic, and quadratic means as well as of averages of ratios and an average computed from the heights of a curve.

In the chapters on dispersion, trends, and correlation, first-moment methods are described in considerable detail. The material dealing with index numbers is excellently presented and in a most teachable manner.

Two sections of the book are weak. First, seasonal variation should be treated in greater detail for the ordinary student; second, the student will experience difficulty in attempting to follow the involved and not too clearly described development of the "measure of correlation."

There are many notable features however to outweigh the few weaknesses. First-moment methods, for example, are generally emphasized and particularly the coefficient of similarity. Commendable also is the comparison of the coefficient of correlation and the coefficient of similarity. In addition to these two methods of correlation, the rank difference method, curvilinear correlation, partial, multiple, and graphic correla-

tion, subjects not ordinarily presented in elementary texts, are discussed and illustrated.

A novelty, featured throughout the book, is the division of nearly every chapter into two parts: the first part given over to the customary development of the subject at hand, and the second devoted to more difficult aspects of the same subject. In the same vein the authors have given wherever possible short-cut formulae (without derivation) for computation. Each chapter is followed by numerous short problems with answers. In addition to the usually appended tables there appear a graph for ascertaining logarithms and a table of constants for determining the parameters of parabolic curves.

This book requires acquaintance with all of college algebra and in several instances with more advanced mathematics. In view of this fact and the complete lack of interpretation of statistical methods in the illustrations, a reader might justifiably conclude that it is the most abstract of the elementary texts yet written in the United States.

A valuable contribution in the field of textbooks, yet this volume is more likely to please an instructor as a supplementary reading than as a daily text.

LESTER S. KELLOGG

*University of Buffalo*

NEW BOOKS

BODDINGTON, A. L. *Statistics and their application to commerce.* 5th ed. (London: Pitman. 1931. Pp. xvi, 350.)

This book contains a discussion of compilation, arithmetical errors, averages, tabulation, the graphic method, dispersion, skewness, index numbers, correlation, use of the census, mechanical aids, and the use of business statistics. Several minor points receive exceptionally detailed attention, including errors in addition and grouping a frequency distribution to find the mode. A detailed description of the principal English price index numbers is given.

There is a tendency to omit specific information in the illustrative charts, such as the commodity considered and the date. Time-series analysis receives scant attention. The treatment of index number construction is entirely inadequate. The discussion of correlation is sketchy; it is notable that the scatter diagram is not mentioned until the last few words of the correlation chapter. Throughout the book emphasis is laid on the uses of business statistics, but the discussion is uncritical.

ELMER C. BRATT

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A statistical study of changes in business activity and consumption changes.

*Guide to current statistics of the United Kingdom.* Vol. XI. 1932. (London: H. M. Stationery Office. 1933. 1s.)

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BEHRENDT, R. *Wirtschaft und Politik im "reinen Kapitalismus."* Schmollers Jahrb., April, 1933. Pp. 24.

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# Matthew Brown Hammond

Matthew Brown Hammond, president of the American Economic Association during the year 1930, died at his home in Columbus, Ohio, on September 28, 1933. Since apparently he enjoyed his usual good health up to the time of his death, neither family nor friends had any premonition of his passing. Death occurred while he was asleep.

Professor Hammond was born at South Bend, Indiana, June 13, 1868. He graduated from the University of Michigan in 1891 with the Ph.B. degree and two years later received the M.L. degree from the University of Wisconsin. The next year and a half was spent in Germany, first at the University of Tübingen and then at the University of Berlin. He was granted the Ph.D. degree from Columbia University in 1898.

The teaching career of Professor Hammond began at Versailles (Missouri) Institute where he was principal in 1891-92. During the academic year 1896-97 he served as acting assistant professor of economics at the University of Missouri. In the autumn of 1897 he was made instructor of economics at the University of Illinois and was later promoted to an assistant professorship. In 1904 he left Illinois to become assistant professor of economics at Ohio State University. He was promoted to associate professor and, in 1908, to professor of economics at this institution, a position which he occupied at the time of his death. When the instruction in economics at Ohio State was departmentalized in 1921, Professor Hammond was made chairman of the department. He retired from the chairmanship in 1928, retaining his rank and duties as professor. He taught at Chicago University during the summer of 1921 and at Columbia University during the summer of 1922.

Always interested in economic legislation, Professor Hammond served his state and nation in various administrative and advisory capacities. After playing a major part in the drafting of labor legislation in Ohio, he served as a member of the Industrial Commission of that state from 1913 to 1915. He was a member and secretary of the Ohio Coal Mining Commission in 1913. From 1917 to 1919 he was a member of the Ohio Health and Old Age Insurance Commission. During the World War he was labor advisor to the United States Food Administration and a member of the War Labor Policies Board. In 1920 he served as technical advisor to the United States Anthracite Coal Commission. During the acadamic year 1911-1912 he investigated labor problems and labor legislation in New Zealand and Australia.

For years Professor Hammond served in various official capacities in the Congregational Church of Columbus, Ohio—the so-called Washington Gladden Church. He served on numerous committees of the American Economic Association and, as mentioned before, was made its president for the year 1930. Other associations to claim his interest and attention included the American Association for Labor Legislation and the Social Science Research Council. He was a member of both Phi Beta Kappa and Beta Gamma Sigma.

Professor Hammond's contributions to economic thought, in addition to articles in various economic journals, included *The Cotton Industry,* 1897; *Railway Rate Theories of the Interstate Commerce Commission,* 1911; and *British Labor Conditions and Legislation during the War,* 1919. For a considerable time before his death he had been engaged in further researches in the history and organization of the cotton industry. It is to be hoped that someone will be able to put the finishing touches upon this work so that Pro-

fessor Hammond's contributions will be made available to economic students.

Almost never could it be said that Professor Hammond sought honors or publicity. Yet his sound judgment and friendly advice were always in demand among his immediate associates and even in wider circles of acquaintances whom he met less frequently. While willing to defend vigorously his position on any subject in which he had an interest, he never permitted even sharp disagreement on questions of policy to disrupt personal friendship. Always courteous and tolerant, he was ever willing to overlook minor defects in those with whom he associated in order that he might better appreciate their worth-while qualities. Discouragement and temporary defeats failed to overcome his optimism. While he did not accept a belief in the automatic adjustment of economic forces, he did have faith in our ability to find adequate solutions for our economic problems. Continuous and painstaking study of economic history and the development of economic doctrines gave him a long-range, philosophical outlook on life.

H. E. Hoagland

## Willard Clark Fisher

Willard Clark Fisher, a member of the American Economic Association since 1890 and at one time vice-president, died at his native home in Westerlo, New York, April 23.

Professor Fisher was born in 1865, graduated at Cornell University in 1888, and did graduate work there as fellow in economics and history during the following two years. He was instructor at Brown University 1890-91, associate professor of economics and social science at Wesleyan University 1892-96, and professor 1896-1913. He was mayor of Middletown, Connecticut, for the terms 1906-1908 and 1910-1912 and was the Progressive Party nominee for governor of Connecticut in 1912. In 1913-14 he was lecturer in economics at Harvard, and from 1916-1926 he was professor of economics at New York University. He was made emeritus professor in 1927.

His early interests were particularly in the field of money and monetary problems, but he later devoted his attention largely to problems of labor and social welfare.

Professor Fisher was an excellent teacher, a thorough scholar, and a fearless and socially-minded public official.

E. W. K.

## NOTES

The forty-sixth annual meeting of the American Economic Association will be held in Philadelphia, Pennsylvania, December 27-29, with headquarters at the Benjamin Franklin Hotel. The preliminary program has been arranged as follows:

*Wednesday, December 27*

10:00 a.m. Round Table Conferences

1. The History of the Recovery—chairman, Herbert Heaton, University of Minnesota.
2. Imperfect Competition (joint meeting with the Econometric Society)—chairman, Joseph A. Schumpeter, Harvard University
   Discussion: Irving Fisher, Yale University; E. H. Chamberlin, Harvard University
3. Public Utilities in the Depression—chairman, Martin G. Glaeser, University of Wisconsin
   Discussion: E. W. Morehouse, Wisconsin Public Service Commission; L. R. Nash, Stone and Webster Engineering Corporation, New York City, R. H. Montgomery, University of Texas

2:30 p.m. First Session—presiding officer, Emory R. Johnson, University of Pennsylvania
General Topic: The Transportation Problem
Papers: H. G. Moulton, Brookings Institution, "Essentials of a National Transportation Policy"; W. J. Cunningham, Harvard University, "Correlation of Rail and Highway Transportation"
Discussion: Julius H. Parmelee, Bureau of Railway Economics, J. W. Barriger, III, Railroad Division, Reconstruction Finance Corporation

3:00 p.m. Joint session with the American Statistical Association and the American Sociological Society—presiding officer, Wesley C. Mitchell, Columbia University
General Topic: The Rôle of Statistics in the National Emergency
Papers: R. G. Tugwell, Assistant Secretary of Agriculture, "The Passing of Laissez Faire"; Edmund E. Day, Rockefeller Foundation, "Economic and Social Mobilization"; Stuart A. Rice, President American Statistical Association, "Statistical Opportunities and Responsibilities"

5:00 p.m. Meeting of the Executive Committee

8:00 p.m. Second Session
Presidential Addresses: E. B. Reuter, American Sociological Society; Isidor Loeb, American Political Science Association; Abbott Payson Usher, Vice-President American Economic Association

*Thursday, December 28*

9:00 a.m. Business Meeting (reports of officers and committees, etc.)

10:00 a.m. Round Table Conferences

1. Marketing under Recovery Legislation (joint meeting with the American Farm Economic Association and the National Association of Teachers of Marketing and Advertising)—chairman, Roland S. Vaile, University of Minnesota

Discussion: George Filipetti, University of Minnesota; Fred E. Clark, Northwestern University

2. Economics of the Recovery Act—chairman, Joseph H. Willits, University of Pennsylvania

Discussion: John Dickinson, Assistant Secretary of Commerce; Frank A. Fetter, Princeton University; Otto Nathan, Princeton University; Alexander Sachs, National Recovery Administration; H. Parker Willis, Columbia University

3. Measurement of Unemployment (joint meeting with the American Statistical Association)—chairman, Meredith B. Givens, Social Science Research Council

2:30 P.M. THIRD SESSION

General Topic: Banking and Monetary Legislation

Papers: E. W. Kemmerer, Princeton University, "Controlled Inflation"; H. Parker Willis, Columbia University, "The Banking Act of 1933 and Its Relation to the Revision of the Banking Law"

8:00 P.M. FOURTH SESSION (joint session with the American Farm Economic Association)

General Topic: The Rehabilitation of Agriculture

Papers: Henry Wallace, Secretary of Agriculture; E. G. Nourse, Brookings Institution

*Friday, December 29*

9:00 A.M. Business Meeting (election of officers, etc.)

10:00 A.M. FIFTH SESSION

General Topic: Public Finance

Papers: Fred R. Fairchild, Yale University, "Tax Delinquency"; Herbert D. Simpson, Northwestern University, "A Re-examination of the Sphere of Governmental Activity"

Discussion: F. P. Weaver, Pennsylvania State College

12:00 M. Meeting of the Executive Committee

2:30 P.M. SIXTH SESSION (joint session with the American Association for Labor Legislation)

General Topic: Unemployment and Public Works

Papers: Sumner H. Slichter, Harvard University, "The Economics of Public Works Programs"; Henry Matson Waite, Deputy Administrator, Federal Emergency Administration of Public Works, "The Federal Public Works Program"

Discussion: Richard M. Neustadt, Pennsylvania State Employment Office; Isador Lubin, Commissioner, Bureau of Labor Statistics; William H. Loucks, University of Pennsylvania

The following names have been added to the membership of the AMERICAN ECONOMIC ASSOCIATION since August 1:

Abbott, E., Social Science Research Bldg., Univ. of Chicago, Chicago, Ill.
Baehne, G. W., c/o International Business Machine Corp., 270 Broadway, New York City.
Bailey, L. J., Indiana State Library, Indianapolis, Ind.
Barnes, J., 129 E. 52nd St., New York City.
Bennett, C., 7542 Byron Pl., St. Louis, Mo.
Egan, F., Standard Portland Cement Co., Ltd., Charbon, N. S. W., Australia.

Evans, R. F., 729 Westview St., Germantown, Pa.
Fabricant, S., National Bureau of Economic Research, 51 Madison Ave., New York City.
Harrison, S. M., 130 E. 22nd St., New York City.
Johnson, E. J., 415 Dixie Terminal Bldg., Cincinnati, Ohio.
Leung, P., 828 W. 36th Pl., Los Angeles, Calif.
Morgan, O. S., School of Business, Columbia Univ., New York City.
Norton, H. K., 50 E. 76th St., New York City.
Pearce, C. A., 1808 Eye St. N.W., Washington, D.C.
Sayre, H. M., 40 S. Third St., Columbus, Ohio.
Shannon, J. R., Rice Institute, Houston, Tex.
Shaw, A. E., Charcas 682, Buenos Aires, Argentina, S.A.
Staebler, N., 424 S. Main, Ann Arbor, Mich.

Central Statistical Board: On July 27, 1933, by executive order of President Roosevelt, a Central Statistical Board was established. This board is empowered "to appraise and advise upon all schedules of all government agencies engaged in the primary collection of statistics required in carrying out the purposes of the National Industrial Recovery act, to review plans for tabulation and classification of such statistics, and to promote the coördination and improvement of the statistical services involved." It will not itself engage in the collection, compilation or analysis of data. The chairman of the board is Winfield W. Riefler, assisted by twelve officials in the service of the federal government. The board may be regarded as the successor of the Federal Statistics Board, which has recently been dissolved. The office is at Room 7028 in the Commerce Building.

Calendar Reform Committee: The Committee on Calendar Reform of the American Statistical Association held an emergency meeting at N. R A. headquarters in Washington, September 20, 1933, at the suggestion of Dr. Stuart A. Rice, president of the association and a member of the Central Statistical Board, the newly created coördinating body for the government's permanent and emergency statistical agencies with relation to the recovery program. The emergency arose in connection with the problem of determining a uniform reporting period for employment, pay-roll, man-hour, production and other data from industries under the Codes.

The committee unanimously adopted the following recommendation which was formally presented to the Central Statistical Board on September 13, 1933, by the committee chairman, Mr. M. B. Folsom:

"It is recommended that the current statistics of industry and trade relating to employment, pay-roll, production, and other data used as a measure of the volume of business activity should be reported for periods of one week, two weeks or four weeks, with the object of making possible comparisons on a four-week basis; it being understood that in the case of certain industries or fields of activity exceptions to this practice may be appropriate."

The Federal Coördinator of Transportation, Joseph B. Eastman, has appointed a committee to advise with O. S. Beyer of the Coördinator's staff in regard to labor research and relations. Those who have agreed to serve on this committee (without compensation) are: J. Douglas Brown, Princeton University; Meredith B. Givens, Social Science Research Council; Walton H. Hamilton, Yale University; Alvin H. Hansen, University of Minnesota; William Leiserson, Antioch College; Isador Lubin, United States Commissioner of Labor Statistics; David A. McCabe, Princeton University; Isaiah L.

Sharfman, University of Michigan; Sumner H. Slichter, Harvard University; William Stead, United States Employment Service.

The Econometric Society, an international body for the advancement of economic theory in its relation to statistics and mathematics, has elected 29 fellows. In the list of Americans are: Irving Fisher, Yale University; Harold Hotelling, Wesley C. Mitchell and H. L. Moore, Columbia University; Griffith C. Evans, Rice Institute; Henry Schultz, University of Chicago; E. B. Wilson, and Joseph Schumpeter, Harvard University; Charles F. Roos, National Recovery Administration. The present officers are: Professor Irving Fisher, president; Professor François Divisia, L'Ecole Polytechnique, vice-president; Dr. Charles F. Roos, secretary; and Alfred Cowles, 3rd, Colorado Springs, treasurer.

The twenty-first session of the International Institute of Statistics was held in Mexico City, October 11-14. Among the American members present were: Walter F. Willcox, vice-president, Irving Fisher, Carl Snyder, Joseph A. Hill and Davis R. Dewey. The latter presided over the sessions of the second section, dealing with economic statistics.

A dinner meeting of the American Statistical Association in honor of members of the International Statistical Institute visiting the United States was held in New York City on November 1. Among the speakers were: Friedrich Zahn, president of the International Statistical Institute, president of the Bavarian Statistical Office; Arthur L. Bowley, treasurer, professor of statistics at the London School of Economics; Michel Huber, vice-president, director of the General Statistics of France; Louis Livi, professor of statistics at the University of Florence; C. A. Verrijn Stuart, professor of political economy and statistics at the University of Utrecht.

The closing date for receipt of applications for grants-in-aid of research in the social sciences from the Social Science Research Council is February 1, 1934. Information in regard to these grants may be obtained from the secretary of the Council, 230 Park Avenue, New York City.

The College of Business Administration at the University of Washington, which became the department of economics and business in the College of Arts and Sciences when the thirteen units of the University of Washington were combined a year ago into four units was restored to its former status by the Board of Regents, September, 1933. It will be known as the College of Economics and Business. Dr. S. J. Coon will again be dean of the College.

The following numbers in the economic series presentation broadcasts of the National Broadcasting Company between May 6 and June 10, 1933, have been published in pamphlet form by the University of Chicago Press: *The World Economic Conference* (pp. 13); *Germany and the World Economic Conference* (pp. 13); *Trade Barriers and the World Economic Conference* (pp. 15); *The Worker and the World Economic Conference* (pp. 14); *The Position of the United States in the World Economic Conference* (pp. 13); *International Financial Reconstruction* (pp. 10).

The *Review* has received the first number of the *Southern Economic Journal,* under date of October, 1933 (pp. 16). This contains an article on "Economic Thought and Economic Policy in the South," by Tipton R. Snavely of the University of Virginia. (Editorial Office, 11 Commerce-Journalism Building, Athens, Georgia.)

The initial number of *Berichte über Landwirtschaft: Zeitschrift für Agrarpolitik und Landwirtschaft,* has appeared, published by Paul Parey, Berlin.

Brookings Institution: The Institution has awarded fellowships to eleven men and three women for the academic year 1933-34. Several of these awards were made coöperatively with universities, making it possible for selected graduate students and younger faculty members to study in the national capital under the auspices of the Brookings Institution. Fellows are: Charles A. Annis, Cornell University; Jeanette L. Berger, Radcliffe College; Charles J. Coe, Brown University; Henry H. Edmiston, Yale University; Lee S. Greene, University of Wisconsin; James C. Nelson, University of Virginia; Helen C. Sands, Radcliffe College; Rainer W. Schickele, Iowa State College; Edward C. Simmons, Ohio State University; Leroy D. Stinebower, University of Chicago; John H. Thurston, Harvard University, Anita Wells, University of Kentucky. Consulting fellows: Genpachiro Konno, Tokyo Imperial University; Malcolm L. Merriam, formerly with Bank of America.

The Institute of Economics of the Brookings Institution has received from the Rockefeller Foundation three special grants of funds to finance concurrent studies of the operation of the Agricultural Adjustment act, the operation of the Industrial Recovery act, and of government financial policies. The carrying out of these investigations requires coöperation with other institutions, as well as expansion of the Institute's own staff. The various parts of the work are to continue for periods ranging from one to two years. The following persons have accepted temporary appointments for work in connection with these special studies: Aaron V. Abramson, John D. Black, Virginius F. Coe, Joseph S. Davis, Hans W. Dreyhausen, D. A. FitzGerald, Virgil Gilman, Paul T. Homan, Sherman Johnson, Edwin A. Lamke, Fred Lininger, Leon C. Marshall, Henry I. Richards, Harold B. Rowe, George W. Terborgh, Cyril B. Upham, and Max von Zabern.

Dana J. Tinnes of Grand Forks died September 1, 1933. He was one of the earliest advocates of the commodity dollar, and the author of the Burtness bill, a bill to stabilize the buying power of money, introduced by Congressman O. B. Burtness before Congress for the past several sessions.

### *Appointments and Resignations*

Donald Anthony has been appointed acting head of the department of economics at the University of Akron.

C. C. Balderston of the Wharton School of the University of Pennsylvania served as a member of the staff of the Consumers' Advisory Board of the National Recovery Administration until the departure of Dr. William F. Ogburn, director of the board, at which time he also resigned.

Gerald Barnes, recently professor of sociology at Dickinson College, has been appointed assistant professor of economics and sociology at Clark University for the current academic year.

Spurgeon Bell, director of the Bureau of Business Research of Ohio State University, was connected with the Committee on Economic Statistics in Washington during the summer and autumn months.

Frank Blossman has been appointed a graduate assistant in the College of Commerce of Louisiana State University for the current year.

Carman G. Blough, professor of accounting and head of the accounting department of the school of commerce, University of North Dakota, resigned in order to accept a position as professor of economics at Armour Institute of Technology at Chicago.

J. Roy Blough is absent from the University of Cincinnati in connection with his work under the Federal Unemployment Relief Administration.

Jay W. Blum, formerly of Princeton University, is assistant professor of economics at Kenyon College.

Viva Boothe of the Bureau of Business Research of Ohio State University is on leave for special work in Washington in connection with the N.R.A. program.

Karl R. Bopp, who spent the last year as a fellow of the Social Science Research Council to study the control over credit in Germany, has returned to the University of Missouri. He spent most of the year at the Reichsbank in Berlin, at the Institut fur Sozial- und Staatswissenschaften in Heidelberg, the Bank for International Settlements in Basle, and at the Institut für Weltwirtschaft und Seeverkehr in Kiel.

W. O. Brown has been appointed a graduate assistant in the College of Commerce of Louisiana State University for the current year.

M. H. Bryan, associate professor of economics at the University of Georgia, has been given a year's leave of absence to enable him to complete his *Financial History of Georgia.*

T. A. Budd has been appointed assistant dean of the Wharton School in charge of the field of student activities.

F. A. Bushee of the University of Colorado attended the sessions of the London Economic Conference as an observer.

L. V. Chandler has been appointed instructor in economics at Dartmouth College.

Melvin G. de Chazeau, associate professor of commerce at the University of Virginia, has returned after a year's leave of absence as fellow of the So-

cial Science Research Council, studying in England and Scotland the activities of the Central Electricity Board after the reorganization of the electrical supply industry under the act of 1926.

Franklin G. Connor of the department of industry in the Wharton School of the University of Pennsylvania has been appointed assistant director of the Philadelphia office of the Federal-State Employment Service. He will continue some of his work at the University.

Kenneth Dameron of the marketing staff of Ohio State University is acting as assistant to Mr. A. D. Whiteside, the deputy in charge of all distribution codes under the N.R.A. Dr. Dameron has recently been appointed to the rank of associate professor.

Hiram S. Davis, research associate of the department of industrial research of the University of Pennsylvania, served during the summer as special advisor to Mr. A. D. Whiteside, deputy administrator in charge of the wool code of the National Recovery Administration.

E. F. Donaldson has been promoted in rank to assistant professor of business finance at Ohio State University.

Huber Earle of the University of Florida has been appointed a graduate assistant in the College of Commerce of Louisiana State University for the current year.

Corwin D. Edwards is absent from Washington Square College of New York University for the current semester. He is acting as economist to the Consumers' Advisory Board at Washington.

Donald M. Erb, formerly of the department of economics at the University of Oregon, has been appointed associate professor of economics at Stanford University.

Clyde Olin Fisher has resumed his teaching at Wesleyan University, having spent the last six months of his sabbatical leave in Spain and in Italy. Since his return to the United States, Professor Fisher has been engaged by the City of Cleveland as economist to represent it in litigation with the East Ohio Gas Company, involving a reduction of rates charged for natural gas. Professor Fisher presented economic testimony pertinent to a fair rate of return for the natural gas company.

Waldo E. Fisher, assistant professor of industry in the Wharton School of the University of Pennsylvania, served during the summer as technical adviser to the National Recovery Administration in connection with the drafting of the bituminous coal code.

A. A. Friedrich of Washington Square College, New York University, is absent for the current semester and is serving in the division of Economic Planning and Research at Washington.

Homer E. Gregory of the College of Economics and Business at the University of Washington, Seattle, has been promoted from an associate professorship to a full professorship.

John A. de Gruchy, acting assistant professor of commerce during the year 1932-33 at the University of Virginia, has been appointed professor of economics in the College of St. Thomas, St. Paul, Minnesota.

Earl J. Hamilton of Duke University has returned to his university work. He spent the academic year 1932-33 in Spain in charge of the research being carried on under the auspices of the International Scientific Committee on Price History.

C. O. Hardy of the Brookings Institution is offering at the University of Chicago a course in money and one on the American transportation problem.

Alfred E. Harsch of the College of Economics and Business at the University of Washington, Seattle, who was appointed legal counsel to the state tax commission in January, 1933, will continue this work for the academic year 1933-1934.

Alma Herbst of the department of economics of Ohio State University has been promoted to the rank of assistant professor.

Rex B. Hersey, assistant professor of industry in the Wharton School of the University of Pennsylvania, has returned from a fifteen months' study of German manual and clerical workers. The study was conducted from a physiological and psychological standpoint.

William W. Hewett of the University of Cincinnati is spending a year's leave of absence in travel and study in Europe.

Ridgeway Hoegsted has been appointed assistant in economics at the University of California at Los Angeles in the position occupied last year by Mr. John Clendenin who is completing his graduate work in the University of Iowa.

Calvin B. Hoover has returned to Duke University after a year's sabbatical leave in Germany. A result of his study of economic and political conditions in Germany is the book entitled *Germany Enters the Third Reich.*

M. H. Hornbeak has been appointed a graduate assistant in the College of Commerce of Louisiana State University for the current year.

Lewis K. Johnson has resigned his position at Mercer University to become an assistant professor of business organization at Washington and Lee University.

Malcolm Keir of Dartmouth College acted as advisor to the New Hampshire National Recovery Administration Committee during the past summer.

Earl L. Knight, formerly a graduate assistant at Ohio State University, has been appointed assistant professor of finance at Duquesne University.

N. R. Knight has been appointed to an instructorship in economics in the College of Economics and Business at the University of Washington, Seattle, to replace Mr. B. O. Wheeler who has resigned.

Elmer C. Koch, acting head of the accounting department in the School of Commerce of the University of North Dakota the past year in the absence of Mr. Carman G. Blough, has been appointed head of the accounting department.

C. A. Kulp of the University of Pennsylvania, early this year was appointed chairman of the governor's committee to investigate workmen's compensation in the state of Pennsylvania.

Ben F. Lemert of the department of economics at Duke University spent the summer in Europe giving especial attention to a study of the prevailing conditions in the cotton textile industry. The University of North Carolina Press has just published Dr. Lemert's study of the cotton textile industry in the Piedmont region of the South.

Harry J. Loman has been appointed assistant dean of the Wharton School of Finance and Commerce of the University of Pennsylvania.

E. C. Lorentzen, formerly assistant professor of economics in the University of Utah, who for the last four years has been connected with the Goodrich Rubber Company at Akron, Ohio, has returned for the present semester to the University of Utah to take the place of Professor Mark H. Greene who has been taken over by the state government to help carry out the National Recovery Administration program.

Theresa S. McMahon, of the College of Economics and Business at the University of Washington, Seattle, has returned to the staff after a year's leave of absence.

Donald A. Mackenzie of the College of Economics and Business at the University of Washington, Seattle, has been promoted from instructor to assistant professor of business administration.

Robert W. Maxwell has been appointed acting instructor in business administration in the College of Economics and Business at the University of Washington, Seattle, to replace Professor Alfred E. Harsch, who is on leave of absence for the academic year 1933-1934.

Charles S. Morgan is on leave of absence from the Interstate Commerce Commission in order that he may serve as director of certain research projects for the Federal Coördinator of Transportation.

T. E. Morris of the University of Texas has been appointed a graduate assistant in the College of Commerce of Louisiana State University for the current year.

Otto Nathan has been appointed visiting lecturer in economics at Princeton University. Dr. Nathan was formerly connected with the department of statistics of the German government and with the German ministry of economics.

Carl Neal of Birmingham-Southern University has been appointed a graduate assistant in the College of Commerce at Louisiana State University for the current year.

James A. Nelson, assistant in economics at the University of Virginia, has received a joint fellowship from the Brookings Institution and the University of Virginia.

Ruby Turner Norris, formerly an assistant at Stanford University, has been appointed instructor in the department of economics and sociology at Vassar College.

Melchior Palyi, formerly of the faculty of the Handelshochschule, Berlin, and until recently economist for the Deutsche Bank, has been appointed professorial lecturer at the University of Chicago for the current academic year. His courses will be on monetary theories and European banking systems and problems.

H. Edwin Peters of Johns Hopkins University has been appointed professor of economics at the College of Charleston.

John H. G. Pierson has been appointed instructor in political economy at Yale University for the coming year.

Chester B. Pond, formerly of the Brookings Institution, is taking the place of Dr. J. Roy Blough at the University of Cincinnati for the first semester.

Donald C. Riley has been appointed professor of economics at Huron College.

Harold B. Rowe, extension professor of agricultural economics at Massachusetts State College, has resigned to accept a position with the Brookings Institution, Washington.

Henry Schultz of the University of Chicago was awarded a Guggenheim Fellowship for the year 1933-34. He left at the end of August to spend this year in study abroad.

Karl M. Scott, associate professor of economics in the School of Commerce of the University of North Dakota, has been granted a leave of absence for the first semester on account of illness.

R. T. Segrest of the University of Georgia is on the teaching staff at the University temporarily filling the place of Mr. Bryan.

Earl R. Sikes has been appointed chairman of the department of economics at Dartmouth College.

Evelyn Singleton of Johns Hopkins University has been appointed statistician with the Baltimore Relief Commission.

Nelson L. Smith has been granted a leave of absence from Dartmouth College and has become a member of the New Hampshire Public Service Commission.

Richard A. Staderman has been appointed lecturer in economics, statistics and business administration for the Committee on Opportunities for Education at Cincinnati, Ohio.

William H. Stead of the University of Minnesota has been appointed associate director of the United States Public Employment Service in connection with the Department of Labor.

Richard G. Stone, formerly instructor at Wofford College, has been appointed instructor of social and economic science at Converse College.

S. B. Sweeney, assistant professor of insurance at the University of Pennsylvania, continues to serve for the coming year as director of the Bureau of Workmen's Compensation of the Commonwealth of Pennsylvania.

George W. Taylor, research associate of the department of industrial research of the University of Pennsylvania, served during the summer as industrial advisor for the National Recovery Administration and continues as technical advisor and assistant deputy administrator for the apparel codes.

J. B. Taylor has been promoted to the rank of professor and head of the department of accounting at Ohio State University.

T. E. Thompson of Ohio State University is on leave of absence during the autumn quarter to be connected with the Bureau of the Census and the Bureau of Labor Statistics as a part of the National Recovery Administration program.

Willard L. Thorpe has been granted a leave of absence from Amherst College and has been appointed by President Roosevelt to the position of director of the Division of Domestic and Foreign Commerce

Paul M. Titus, formerly of the department of economics and social institutions at Princeton University, is now chairman of the department of economics at Kenyon College.

Jacob Viner of the University of Chicago has been granted a leave of absence for the current academic year to lecture at the Institut Universitaire de Hautes Etudes Internationales at Geneva, Switzerland.

Elbert S. Wallace, who was a fellow in economics at Duke University during the academic year 1932-33, has been appointed a part-time instructor in economics at the University for the coming year.

E. C. Welsh has been appointed instructor in economics at the University of Cincinnati for the year 1933-34.

A. H. Williams of the Wharton School of the University of Pennsylvania served as a member of the staff of the Consumers' Advisory Board of the National Recovery Administration until the departure of Dr. William F. Ogburn, director of the board, at which time he also resigned.

Chester Williams of the University of New Mexico has been appointed a graduate assistant in the College of Commerce of Louisiana State University for the current year.

Joseph H. Willits, professor of industry at the Wharton School and director of the department of industrial research of the University of Pennsylvania, was appointed dean of the Wharton School, the appointment to begin July 1, 1933. He has also been appointed a member of the federal advisory council of the Federal Employment Service.

Charles Frederick Wilson has joined the staff of the department of economics and sociology of Wellesley College.

E. E. Witte, who for many years was secretary of the Industrial Commission of the State of Wisconsin and for the past eleven years served as chief of the Legislative Reference Library, has accepted the position of professor of economics at the University of Wisconsin.

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